ALL RISK CROP INSURANCE

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INTRODUCTION

The first half of the twentieth century in the United States has been characterized by a great movement toward socio-economic security. This striving for freedom from economic upheaval has been so dynamic that wherever private industry has not provided programs for financial assistance the people have instructed their elected representatives to do so. Pension plans, medical assistance, social security benefits, and unemployment insurance give witness to this urge for financial assistance in times of emergency.

Businessmen long ago learned that he who provides for financial relief in emergencies is enabled to continue operations. In addition to operating reserves, the majority of businessmen purchase economic security by means of insurance through which they share the hazards of business operations. They purchase insurance designed to protect their investment from such hazards as fire, theft, and the so-called "Acts of God." Some even purchase insurance against price risks.

Agriculture, one of the basic elements of our economy, has been without such protection. The farmer could get insurance on his physical property but no insurance on his stock in trade - his crops. Yet the farmer is more subject to natural hazards than the average businessman.

An area so severely stricken by drought, flood, insects, or some other similar catastrophe that the crop production is lost or severely damaged, is economically weakened and may even be declared an emergency area for relief. The social and economic tragedy to the surrounding communities is similar to the results of a fire wiping out the business center of a town. Add to the immediate economic disruption caused by the fire, the after effects if no business man carried insurance with which to rebuild and you have a reasonable picture of what can happen to the small towns and individuals depending upon farming for a livelihood.

The business economy of hundreds of areas is supported entirely by the farm population. The farmer's place in our economy is important not only for what he produces but equally so for what he buys. Realizing the importance of the farmer's position in our economic structure, we have tried to stabilize the farm income by means of price supports. However, such protection is of little avail to the farmer who has lost his crop through no fault of his own. Insurance on specific hazards such as fire or hail is available, but it too gives little security to the farmer faced with a multitude of other weather and insect and disease damage. The type of insurance that is required is one that will provide protection of the farmer's investment in his crop against the many weather, insect and disease risks over which he has no control. The minimum protection should guarantee a production return that would at least assure the farmer sufficient finances to plant another crop. Such insurance would reduce relief measures in crop failure areas to a minimum, if not eliminate them altogether, and would provide an economic security that would generally lift the social structure of the entire nation. It would alter the pattern of dependence in the wake of crop disaster to one of independence based on sound business principles.

There have been a few experiments in such "all-risk" insurance by private initiative and the Federal Government. Various private ventures, beginning in 1899 and extending through 1938, ended in failure after short periods of operation. The Federal Government, feeling the need for crop insurance protection as a rounding out of its farm programs, began its insurance operations in 1938. This undertaking has gone through three stages of growth and experimentation, until today it is believed that a sound basis for writing "all-risk" insurance has been developed.

CHAPTER I

ENDEAVORS OF PRIVATE COMPANIES

Insurance is a natural undertaking for private business concerns since insurance and business have gone hand in hand from the time marine insurance was first introduced in Italy in the twelfth century. The sharing of risk through insurance has become such an integrated part of business operations that today there are very few concerns without such protection. As farming became more businesslike in operations, with the farmer growing crops to sell and in turn buying manufactured products, the need for farm insurance protection was felt.

Specific risk insurance, such as hail and fire, have been available to the farmer for approximately seventy years. In addition the farmer has been able to obtain protection against the destruction of his equipment, his house, and, through life insurance, the loss of services. However, the real need has been for a comprehensive risk protection against the natural hazards inherent in pursuing his livelihood - that of growing crops.

General crop insurance presents two great differences that make the writing of it a riskier undertaking than the already established types of insurance. These two elements are the unpredictability of nature and price fluctuation. It is possible for an insurance company in this field to operate successfully for a few years and then to have a severely damaged crop or a drastic drop in price that would wipe out all profits and capital. In spite of these risks the need for such insurance has been so great, and the desire for it so strongly expressed, that several companies in the last fifty years have tried to write all-risk insurance. Unfortunately, each company closed after a short period of operations.

Operating Experience of Private Companies

<u>The Realty Revenue Guaranty Company (1899)</u>.--The first known undertaking of general crop insurance by a private company was in 1899. The Realty Revenue Guaranty Company of Minneapolis, Minnesota, offered one of the simplest insurance contracts ever presented to farmers. This contract, covering both natural and price hazards, guaranteed the farmer an income of five dollars per acre in return for a premium of twenty-five cents. The contract contained an optional clause whereby the insured could offer and the company would have to accept the production of the insured's farm at the agreed contract price of five dollars per acre. This meant that the company would not only insure against all natural hazards, but also insure against price risks. For example: if wheat was selling for one dollar per bushel, it would become profitable to the insured to exercise his option if production fell below five bushels per acre. Little was known about the internal operations of this company except that in the court case of the State of North Dakota vs. Hogan, 8 North Dakota 301, it was indicated that the management was inefficient. The company also accepted notes from the farmer in

payment of his premium with the stipulation that these notes were to be liquidated at the harvest of his crop. The company discounted the notes, closed operations, and left the farmer with no alternative but to pay the holders of the discounted notes without being able to receive indemnities if he had lost his crop.

Bankers of Montana and the National Union of Pittsburg (1917).--The next attempt by private companies came in 1917. Bankers of Montana and the National Union of Pittsburg sold similar policies in the spring wheat area. These policies insured wheat, flax, rye, oats, barley, and speltz against all risks except fire, flood, winterkill, and the failure of the farmer to follow good farming practices. A premium of seventy cents was charged with a guaranteed seven dollars per acre in the case of a total loss. Partial failures were indemnified by the difference between the value of the partial harvest and the face of the policy. The value of the partial harvest was computed on a predetermined fixed price basis. This policy was designed to cover yield rather than price. Both companies suffered heavy losses - about two hundred thousand dollars by Bankers and over a million dollars in the National Union. In addition to the severe drought that occurred in the insured areas, it has been brought out that the failure was due to (1) poor management by the officials; (2) the capital of the company, fifty thousand dollars, was too small for such an undertaking; (3) the risks were highly concentrated rather than being spread out; and (4) that the insurance was written too late in the year. There was much evidence that a large part of the business was written after it was well known in the farming area that a crop loss was apparent. The method of handling insurance by this company was described as follows:[1]

> The local agents for the insurance company were officers of the different local banks throughout the territory. Almost all of the farmers were indebted to these banks with the idea that the debt would be paid from the proceeds of the coming crop. Just as soon, therefore, as it became certain that drought was going to ruin the crop, the banks were faced with a situation out of which there would be no money coming to them. Immediately there was a flood of applications for insurance, and the insurance was gladly written by the bank.

A large volume of the losses were repudiated and in some cases fraud on the part of the insured was claimed. Many claims against the National Union were settled by the return of the premium only to be contested later when it was determined that the company could settle in full.

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1 G. Wright Hoffman, "Crop Insurance - Its Recent Accomplishments and Its Possibilities," The Annals of the American Academy of Political and Social Science, CXVII (January 1925), 101-102.

The Hartford Insurance Company (1919).--The Hartford Fire Insurance Company made the next attempt at writing all-risk insurance. Beginning in the fall of 1919 this company introduced a new type of policy on a national basis. This policy is known as the investment type, covering the cost of production, and in some cases ground rent for the crop year 1920. A premium averaging five and three-fourths percent was charged for the contract which protected the farmer against loss or damage to his crop--"when caused by the elements including frost, winterkill, flood, drought, insects, or disease, but excluding loss or damage when caused by fire, hail, wind, or tornado, or failure of the seed to germinate, or failure of insured to properly prepare the ground for seeding, or to properly seed, cultivate, and harvest said crops." The company collected approximately eight hundred thousand dollars in premiums on an insurance liability of about fourteen million dollars; losses were prevalent throughout the country and totaled over two million five hundred thousand dollars. The recession of 1920 with its drop in the price of grain contributed materially to the company's losses. Another difficulty with the policy was that the coverage was based on the farmer's estimate of his cost. No two farmers agreed on what it cost them to produce a crop. Because of heavy losses in 1920, the company revised its policy for 1921 in an effort to eliminate the risk inherent in price fluctuation. The new policy, which guaranteed a yield per acre, carried the following provisions:

1. If the value of the crop at harvest equaled the coverage in the policy or the cost of production, there was no indemnity.

2. If the production equaled the insured protection, regardless of the price received for the production, there was no indemnity.

For example: if the insured protection was eight bushels to an acre, and the farmer harvested five bushels, and the market value of that five bushels equaled his cost of production, there would be no indemnity. On the other hand, if the production were ten bushels, or two above the insurance coverage, there would be no indemnity even though the market price of the ten bushels did not equal the cost of production. This new provision in the contract was not appealing to the farmers, and business fell off materially in 1921. The company ceased its national operations after 1923.

The Home Insurance Company of New York offered a contract similar to the Hartford Company in 1920 and 1921 with equally unsuccessful operations.

Agricultural Protective Mutual Insurance Company (1931).--The next effort of private business in the all-risk insurance field was in 1931. A Kansas Company, the Agricultural Protective Mutual Insurance Company, offered in the years 1931 and 1932 a cost of production policy that carried a maximum risk coverage of two thousand dollars. Premiums on this policy ranged from five to thirteen percent of the coverage. Like some of its predecessors, this company also insured both price and yield. Danger of a price insurance contract was again forcefully demonstrated when the price of wheat declined rapidly in 1931 and 1932. Heavy losses followed the price declines and the

company had to cease operations. A study after the failure of the company upheld the contention of the manager that the cause of loss was one of price. The company would have made a profit if the price of wheat had remained at fifty cents or above.

Sowers Plan of Insurance (1937).--The last attempt by a private company is known as the Sowers Plan of Insurance. This company also operated in Kansas, and issued a policy in 1937 and 1938 similar to that of the Agricultural Protective Mutual Insurance Company. In order to overcome to some extent the risk of price fluctuations, the company provided a minimum price to be used in computing production income. Unfortunately prices of wheat fell to the minimum level and forced the company into bankruptcy.

Since the bankruptcy of the Sowers Plan, no private company has attempted all-risk crop insurance. They have been content to watch the experience of the Federal Government in this field before again risking their capital. The present charter of the Federal Corporation provides for reinsuring any private company wishing to undertake all-risk insurance. Although several companies have expressed an interest in this provision, none have been willing to write insurance and issue policies covering risks and offering benefits similar to the policies issued by the Federal Corporation.

Causes of Failure

Why did private companies fail in their effort to write general crop insurance? Causes of failure based upon review of the operations of these companies could be summarized as follows:

1. The type of insurance offered covered more of a price risk than a production risk. Successful crop insurance should offer protection to the farmer from the natural hazards over which he has no control without injecting the moral risks involved in price fluctuation. A combination yield and price insurance was a losing proposition. Poor crop years resulted in indemnity payments because of lowered yields, and bumper crop years dropped commodity prices below the insured level. (It should be noted that this refers to the period before price support programs, which in effect is price insurance without premiums for farmers producing a crop.)

2. The companies had entirely insufficient data on which to base rates and coverages. The rates were too low for the risk involved or the coverage was too high as a result of being based on cost estimates furnished by the insured rather than long range actuarial data developed by the companies.

3. Adverse selectivity was a major weakness. Such weakness was reflected in the high concentration of the insurance risks and in the late dates used for accepting applications. In many instances applications were accepted after it was evident that a crop could not be harvested.

4. Another of the major contributions to the failure of the companies was poor management and inexperienced insurance workers. Both the management and workers were not familiar enough with agricultural operations to cope with the uncertainties and individual farm variances found in agriculture.

5. The final was inadequate capital to withstand a severe initial loss. Sufficient capital would have given the companies the advantage of longer periods of operation. Most companies apparently gambled on the hope of making profits before having poor crop years. There happens to be an unusually unique relationship between the years of operation and the weather and economic conditions. Invariably each of these companies was faced at the outset with either a severely poor crop year or a year of rapid price declines that increased losses materially.

CHAPTER II

INITIATION OF FEDERAL INSURANCE

The entrance of the Federal government into the crop insurance field was not a hasty proposition. Many bills were introduced in the Congress, and investigations were conducted over a period of twenty years before final action was taken. The need for Federal assistance in this field was expressed many times during this period. It was most recently and clearly stated by Mr. R. M. Bissell, President of the Hartford Fire Insurance Company in an address before the Agriculture Round Table, April 28, 1937.

> The subject of crop insurance has during twenty years or more periodically attracted the attention of underwriters, farmers' organizations, and those who have loaned money for crop production. The need for the stabilizing influence of insurance has been emphasized by crop disasters of a sweeping nature which have been especially destructive in recent years, and it is not surprising that the thought has recurred to the minds of agricultural leaders that similar safeguards should be available to farming interests.
>
> The striking feature of such a possibility is the tremendous scope of the undertaking and the vast investment for which protection is needed. The serious problem confronting the underwriters of crop values is the calamity of simultaneous hazard, which may reach such immense proportions that vast resources and tremendous reserves would be necessary to cover losses. It is improbable that private capital would be able or willing to expose itself to such disastrous possibilities as might reasonably be expected if crop insurance on wheat is to be granted to the extent and in the manner that have been frequently suggested in the discussions touching the current Government plans. If crop insurance were conducted on a much more limited basis, it is quite possible that private insurance companies could grant the coverage, but even then they would probably need support or backing on the part of some Government financial agency.[2]

Senate Investigation of 1923.--The earliest thorough study made of the crop insurance situation was by a Senate Committee in 1923. This committee held hearings at which farmer representatives, agricultural officials, and private insurance executives gave their views on crop insurance. A report was made, but no further action was taken. The following years saw an

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[2] U. S. Chamber of Commerce, Current Issues in the Agricultural Situation, (Washington: U. S. Chamber of Commerce, 1937) p. 3

improvement in agriculture income, so the question of crop insurance was not seriously considered again until 1936. However, during the intervening period many crop insurance resolutions were introduced to continue investigation and many bills were introduced to create an insurance corporation. Also the Bureau of Agricultural Economics in the Department of Agriculture was studying the question of crop insurance and collected much data that would form the actuarial basis for a sound crop insurance program.

The President's Committee on Crop Insurance.--The bad crop years in wheat in the early 1930's stimulated action for some kind of crop insurance. To get all the basic facts and to bring crop insurance before the public, President Roosevelt appointed a committee on crop insurance in 1936. This committee was composed of representatives of the Department of Agriculture, Congress, and the Treasury. The President requested that this committee make a thorough study of crop insurance, issue a report, and prepare recommendations for legislation providing for a plan of all-risk crop insurance. The committee "consulted with representatives of local, state, and regional as well as national farm organization leaders. It has also had the benefit of the advice and assistance of representatives of farmers' mutual and stock insurance companies and of representatives of the industry warehousing farm products. A spirit of excellent cooperation has been shown by representatives of these groups."[3]

The report surveyed the weather hazards faced by farmers and the economic catastrophe that results from crop failures. Such failures are usually accompanied by a further drain on the national economy in the form of relief measures. The committee developed a plan of insurance for wheat covering seventy-five percent of the average yield for a farm with the premiums and indemnities being paid in either wheat or cash equivalent. The commodity payment feature was predicated upon the theory of storing grain in good crop years to be issued as indemnities in poor crop years. Thus there should be a more stable supply of grain and, to a certain extent, less fluctuation in the price.

Much consideration was given to the value of crop insurance to banks and other institutions of credit and as to whether or not the program should be a private or public undertaking. The efforts of private companies were reviewed earlier. Leaders of private insurance companies had expressed a grave doubt as to their financial ability to undertake such a risk.

> It is clear that any comprehensive program of crop insurance, combining yield insurance and storage of commodity reserves, would be outside the field of private insurance. It appears

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[3]U.S. Congress, House of Representatives, Agriculture Committee, Report and Recommendations of the President's Committee on Crop Insurance, House Document No. 150, 75th Cong., 1st Sess. (Washington: Government Printing Office, 1936), Letter of transmittal.

> to your committee that crop insurance must be integrated with other farm programs in order to serve its purpose most fully. It thus seems to be a function which should be performed by public agencies.[4]

This committee included the following recommendations in its report in December, 1936:[5]

1. That a plan of crop insurance for wheat be recommended to Congress for consideration at an early date so that it can be put into effect on the 1938 crop.

2. That administration of any crop insurance program be a function of the Department of Agriculture, coordinated and integrated with the other programs and functions of that Department.

3. That in view of the public interest in crop insurance, including a greater degree of stability of supplies and income, and reducing prospective special measures of relief to distressed areas, the costs of storage should be borne by the Government, together with all overhead costs of administration. Adequate funds should be made available to the administering agency to meet requirements for:

    A. Overhead administration expenses.

    B. The purchase and handling of commodities necessary to initiate the program.

    C. Reserves adequate to meet extraordinary needs such as might arise out of a series of low yields during the early years of operation of the program.

4. That any proposed legislation provide for:

    A. Insurance of crop yields only without insurance of price.

    B. Employing the farmer's own average yield, as determined from a representative base period, as the basis of insurance coverage.

    C. Insurance of only a designated percentage of the producer's average yield.

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[4]Ibid., p. 12.

[5]Ibid., p. 12, 13.

D. Determination of premiums on the basis of individual and regional loss experience.

E. Payment of premiums and indemnities in kind or cash equivalent.

F. Holding insurance reserves in the form of the stored commodity for which the insurance is written.

G. Writing of insurance, adjustment of losses, and general local administration through local committees or boards of directors.

5. That the premiums charged the insured be such as actuarial studies and accumulated experience indicate are necessary to cover crop losses for a period of years.

6. That the administering organization be authorized to require a minimum amount of participation in the crop insurance program from counties or regions before the insurance will be sold therein.

7. That storage of wheat reserves for insurance purposes shall be made in Federally bonded warehouses or State-licensed warehouses that satisfactorily meet requirements or in other ways that will adequately protect the interests of the Government and the farmers insured.

8. That crop insurance research be continued by the Department of Agriculture in order to facilitate administration of any crop insurance program that may be instituted.

Following the submission of this report to Congress in February 1937, Senator Pope introduced a bill containing essentially the insurance plan outlined. The Senate passed this bill but the Congress adjourned before the House could act. Early in the next session the proposal was included in the Agricultural Adjustment Act of 1938 which was signed by the President on February 16, 1938.

<u>Federal Crop Insurance Corporation</u>.--In accordance with Title 5 of the Agriculture Adjustment Act of 1938 there was created the Federal Crop Insurance Corporation as an agency of and within the Department of Agriculture having as its purpose: ". . . to promote the national welfare by alleviating the economic distress caused by wheat-crop failures due to drought and other causes, by maintaining the purchasing power of farmers, and by providing for stable supplies of wheat for domestic consumption and the orderly flow thereof in interstate commerce."[6]

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[6] 7 U.S.C. 1501

With an authorized capital of one hundred million dollars the Corporation was directed to insure wheat commencing with the 1939 crop. The insurance to be offered was one of protecting production based on a yield return rather than a dollar return. The insurance coverage offered could not be less than fifty percent or above seventy-five percent of the average yield of the insured's farm. Yields, premium rates, and indemnities were stated in terms of bushels. However, the act provided that premiums and indemnities could be paid in either wheat or its cash equivalent. This presented storage problems to the Corporation when wheat was offered and also necessitated the purchasing of wheat by the Corporation when cash premiums were paid.

The indemnities, also determined in terms of bushels, were paid by issuing the claimant either an indemnity certificate redeemable in cash or loan authority or a delivery order on a warehouse receipt to receive wheat. The amount of cash was equivalent to the price of the wheat at the time of surrendering the indemnity certificate. This procedure of providing for payments of premiums and indemnities in commodity was based on the theory of storing wheat in good crop years to be distributed to the farmer in poor crop years.

CHAPTER III

OPERATING EXPERIENCE OF FEDERAL CROP INSURANCE

Federal insurance operations fall into two definite programs. The first program consisted of national operations broken down into two periods; the first, covering the years 1939 through 1943, and the second, 1945 through 1947. Beginning with the crop year 1948 federal insurance operations were reduced to a limited and experimental basis and many changes were made in program administration.

The National Program

As directed by the act, insurance was offered on wheat during the first three years of operation. Cotton was added to the program in 1942, and was also insured on a national basis.

Losses Each Year.--The first five years of operations resulted in losses each year. These losses were primarily due to bad weather conditions or floods, and to adverse selectivity. In many cases applications for insurance were made by the farmer after he was able to determine that a loss was imminent. Also wheat insurance had been sold on an annual contract basis, with the result that many farmers would select the year of participation; if they collected an indemnity one year, there was a great temptation not to insure the next year. In an effort to overcome this selectivity feature, the Corporation introduced a three year contract on wheat beginning with the 1943 crop year.

Congress Orders Liquidation.--However, by that time Congress had become disturbed by what they termed the excessive cost of the program and insufficient participation on the part of the farmer. In an unusual legislative procedure, the appropriation committee inserted language in the appropriation bill for the fiscal year 1944 directing the liquidation of the Corporation. This provision was one of the most contested items of the appropriation bill. Many contended that the program had not operated long enough to warrant such a decision, remembering that when the program was originally set up, it was felt that the premiums and indemnities should balance over a period of years - such a cycle of approximately 10 years being discussed. Others, reviewing the operations of private companies, determined that crop insurance was not feasible. The opposition to crop insurance won out, and sent to the President an appropriation bill containing substantive legislation. Since the President can not veto a part of a bill, he was forced to sign the appropriation bill and in so doing made the following statement:[7]

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[7]No formal document. Statement was made when the President signed the Agriculture Appropriation bill for Fiscal Year 1944 on July 12, 1943.

The Department of Agriculture Appropriation Bill, which I have today signed, provides no funds for continuing the crop insurance program. I regret exceedingly that Congress failed to provide funds to continue this aid to the farmers of the nation.

One of the greatest obstacles which confronts the farmer in maintaining a stable income is the hazard of weather.

The crop insurance program was designed to give the farmer protection against having his income wiped out or greatly reduced by unfavorable weather or some other disaster.

This protection is sorely needed by the small farmers, who in most instances have no financial reserve to tide them over until another crop can be made.

The reason assigned for putting an end to crop insurance is that it was too expensive. It was to be expected that in perfecting a program of such magnitude the government would have to go to much expense, and it would take several years to give it a fair trial. I do not feel that the Department of Agriculture has been given sufficient time to demonstrate the practicability of crop insurance. Any program involving so many complications and such a great amount of educational work with the farmers cannot be placed on a sustaining or entirely satisfactory basis within a few years.

When the government first experimented with rural free delivery of mail, there were those who said it was too costly and was not practicable. More recently when we began inaugurating a program of rural electrification there were those who said it was not practicable and would prove too costly.

Those and other programs, which at first were declared not feasible, are now recognized as a great blessing to our rural population, and they have been made to work on a practical and satisfactory basis.

If we can make crop insurance work, it will, in my opinion, prove one of the greatest steps ever taken by the government toward making farming a sound and profitable occupation.

Certainly in these times when the farmer is being urged to produce more and assume greater risks, we should not stop a program which is of such tremendous potential value to them.

I certainly hope that when Congress returns from its recess, funds will be provided to continue this program, which will mean so much to our farmers and at the same time enable agriculture to be placed on a more stable basis than ever before.

Federal Crop Insurance Revived.--The need for insurance protection was so keenly felt that both major political parties included crop insurance in their platforms for the 1944 campaign. As a result of such interest, the program was re-instituted by an amendment to the Crop Insurance Act dated December 23, 1944. This amendment directed that insurance be offered on a national basis, beginning with the 1945 crop on wheat, cotton, and a third commodity, flax. The timing of the legislation made it impossible to insure winter wheat, so the 1945 operations were limited to spring wheat areas. The legislation also provided for the expansion of the program to additional commodities on a trial basis, not to exceed twenty counties each, and directed that corn and tobacco should be insured beginning with the 1945 crop. Three additional crops could be added each year thereafter.

National Program Terminated After 1947.--Operations for the next two years resulted in a profit on wheat and tobacco; break-even on flax; a slight loss on corn; and heavy losses on cotton. Crop year 1947 was the first completely successful year from an overall financial point of view with total premiums exceeding total indemnities by eight million, five hundred thousand dollars.

However, the extremely heavy losses in cotton in crop years 1945 and 1946 led Congress to review crop insurance operations in the spring of 1947. It was definitely felt that the program should not be liquidated but should be restricted in such a manner that the Corporation could develop the experience necessary for sound insurance programs.

Thus came the end of the Government's first experience in crop insurance on a national basis. Table 7 showing participation and results in the national program appears in the appendix.

During the eight years in which it was in effect the national program grew from one hundred and sixty-five thousand contracts on one commodity to over five hundred and forty thousand contracts covering five different commodities, with a total insurance liability in excess of five hundred million dollars. Evaluation of the financial results depends upon the point of view taken. The Corporation earned from 1939 through 1947, one hundred, forty-eight million, one hundred thousand dollars in premiums and paid out two hundred, nineteen million, four hundred thousand dollars in indemnities, leaving a premium deficit of seventy-one million, three hundred thousand dollars. (For a summary of commodity results see Fig. 1.)

The significant thing to remember is that of the indemnity payments over two-thirds were paid by the farmers themselves. Prior to crop insurance, crop failure areas were given financial assistance in the form of relief payments. It is believed that the system of insurance whereby farmers carry the major burden is much better from both a fiscal and national economy point of view than relief payments.

The total program deficit of seventy-three million dollars (this includes the seventy-one million, three hundred thousand dollar premium deficit plus provision for uncollectible accounts and contingent losses) was charged off as developmental costs of the insurance program. While it is true that the

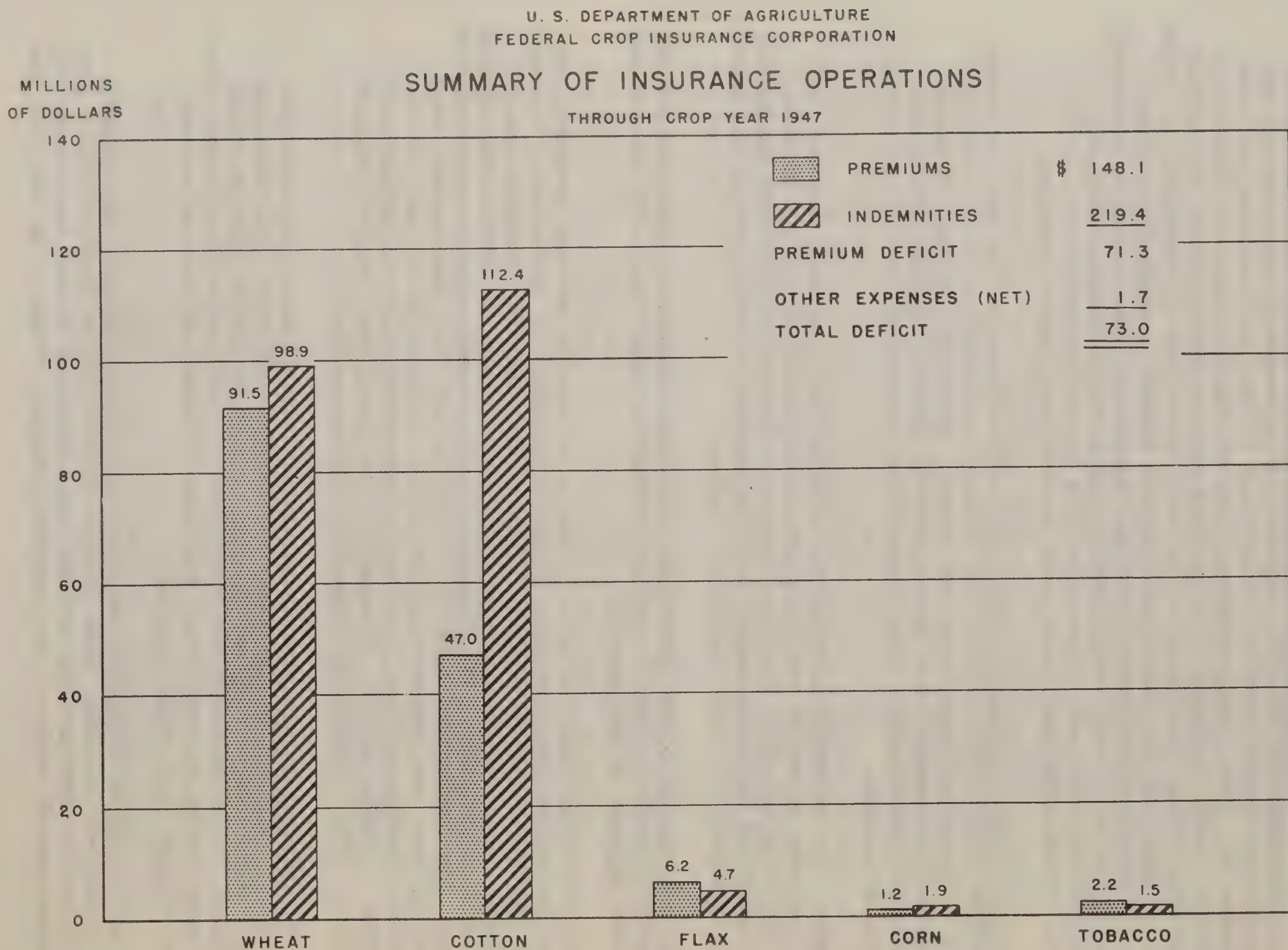
U. S. DEPARTMENT OF AGRICULTURE
FEDERAL CROP INSURANCE CORPORATION
SUMMARY OF INSURANCE OPERATIONS
THROUGH CROP YEAR 1947
MILLIONS OF DOLLARS
140
120
100
80
60
40
20
0
PREMIUMS $ 148.1
INDEMNITIES 219.4
PREMIUM DEFICIT 71.3
OTHER EXPENSES (NET) 1.7
TOTAL DEFICIT 73.0
91.5
98.9
47.0
112.4
6.2
4.7
1.2
1.9
2.2
1.5
WHEAT
COTTON
FLAX
CORN
TOBACCO

Fig. 1

insurance program was designed so that premiums and indemnities would balance over a period of years rather than any individual year, it was felt by the Congress that it would be impossible to recover the deficit under the new program of operations. The capital impairment was incurred when a high coverage insurance was offered on a national basis. The new program, which is described in the next section, is based on low coverage or investment type of insurance, and is offered in a limited number of counties. By charging off the national program deficit it is now possible to develop and judge the new program on its own merits.

New Limited Program

Public Law 320 dated August 1, 1947, restricted insurance operations beginning with the 1948 crop year. Insurance was limited to two hundred wheat, fifty-six cotton, fifty corn, fifty flax, and thirty-five tobacco counties. In addition new commodities could be added to the program in not to exceed twenty counties each. Insurance was offered in crop year 1948 in a total of three hundred and seventy-five counties, and in addition to the five commodities authorized, dry edible beans and a multiple crop program were added. A total of one hundred and sixty-nine thousand contracts were in force, and yielded a premium income which exceeded indemnities by five million, seven hundred and eighty-four thousand dollars. Crop year 1948 was the first year in which every commodity program showed a premium surplus and the second consecutive year in which over-all insurance operations showed a profit. The final results were in accordance with the sound insurance principle that premium reserves should be built up in good crop years to cover the heavier losses in poor crop years. Table 1 summarizes the 1948 crop year results.

1949 Results Conform with Crop Conditions.— In crop year 1949, the same general type of insurance program was in operation with nineteen additional counties being added to the program for beans and multiple crops. Extremely unfavorable weather conditions were experienced in the wheat areas and in the central and eastern part of the cotton belt. Although the total wheat crop was large, the national average yield per acre was the lowest during the last ten years (the large volume of production was due to the unusually large wheat acreage).

There were many areas in the cotton belt where the yield ranged from thirty percent below normal to zero harvest. The large losses experienced in both wheat and cotton were offset to some extent by the excess of premiums over indemnities in the other commodity programs. However, the total financial picture for crop year 1949 shows a loss.

The 1949 operating results conformed with the type of crop conditions that prevailed. A good correlation was found in the review of the 1949 individual county crop experience and insurance experience. The total operating experience under the new program has resulted in a net insurance reserve. Table 2 summarizes the operating results of the 1949 crop year as of June 30, 1950.

TABLE 1

SUMMARY OF INSURANCE OPERATIONS
CROP YEAR 1948

	Wheat	Cotton	Flax	Corn	Tobacco	Beans (Dry Edible)	Multiple Crop	Total
Number of Counties .	200	53	48	36	32	4	2	375
Number of Contracts in Force	84,990	19,479	16,782	14,115	31,605	1,444	714	169,129
Percentage of Eligible Farms Insured	37	13	35	20	35	26	16	-
Number of Indemnities . . .	10,040	2,614	1,932	311	1,926	76	11	16,910
Premiums	$8,587,800	$1,411,800	$1,547,200	$435,300	$656,000	$32,400	$23,800	$12,694,300
Indemnities	$5,009,300	$ 601,400	$ 795,100	$ 74,500	$282,900	$ 9,300	$ 1,400	$ 6,773,900
Surplus	$3,578,500	$ 810,400	$ 752,100	$360,800	$373,100	$23,100	$22,400	$ 5,920,400
Loss Ratio	0.58	0.43	0.51	0.17	0.43	0.29	0.06	0.53

TABLE 2

SUMMARY OF INSURANCE OPERATIONS
CROP YEAR 1949

	Wheat	Cotton	Flax	Corn	Tobacco	Beans (Dry Edible)	Multiple Crop	Total
Number of Counties .	199	52	48	44	35	9	7	394
Number of Contracts in Force	58,881	26,667	19,267	19,607	35,023	2,909	2,722	165,076
Percentage of Eligible Farmers Insured	21	16	40	19	29	29	19	-
Number of Indemnities . . .	17,832	9,522	2,600	547	3,659	324	111	34,595
Premiums	$ 7,718,446	$1,583,692	$883,516	$586,941	$741,153	$95,150	$136,678	$11,745,578
Indemnities	$11,320,047	$3,112,623	$542,821	$ 94,681	$490,972	$61,952	$ 22,149	$15,645,246
Surplus or Deficit (-) . . .	-$ 3,601,601	-$1,528,931	$340,695	$492,260	$250,181	$33,198	$114,529	-$ 3,899,668
Loss Ratio	1.47	1.97	0.61	0.16	0.66	0.65	0.16	1.33

<u>Expansion of the Program</u>.--During the spring of 1949 the House Agricultural Committee invited the management to review its experience under the limited program. Hearings were held concerning the soundness of the program, and the desirability to expand operations. The consensus of opinion was that while the ultimate aim was toward national insurance operations, that for the next few years at least, the expansion should be on a gradual basis. It was felt that sufficient experience had been gained in the limited number of counties to warrant expansion. Public Law 268, approved August 25, 1949, outlined a formula for gradual expansion of the program. This formula provides that beginning with the 1950 crop year the number of counties in which insurance could be offered may be increased by fifty percent of the basic authorization. In other words, one hundred wheat, twenty-eight cotton, twenty-five each of flax, corn, and multiple crops, and seventeen tobacco counties can be added each year. In addition provision was also made to increase the number of counties for other crops such as dry edible beans by ten counties a year, after the program had been in operation three years. The life of this formula has been set to end in crop year 1953.

In accordance with this formula the program was expanded to six hundred and twenty-four counties in crop year 1950 and is expected to include eight hundred and seventy-seven counties in 1951. Areas covered by insurance in the 1950 program are shown in Fig. 2. A limited program on citrus was introduced beginning July 1, 1950. The citrus program offered was different than other insurance programs in that any indemnity would be based on a percentage of loss, and liability of the Corporation was limited to three risks only - hail, frost, and wind-storm. In other words, if a wind-storm hit a citrus grove and destroyed ten percent of the crop, the Corporation would have an indemnity of ten percent of the coverage. This insurance was offered in parts of two Florida counties and covered oranges, grapefruit, and tangerines. The program will not be active during the 1950 crop year since the required minimum number of farmers in the areas being insured did not sign applications.

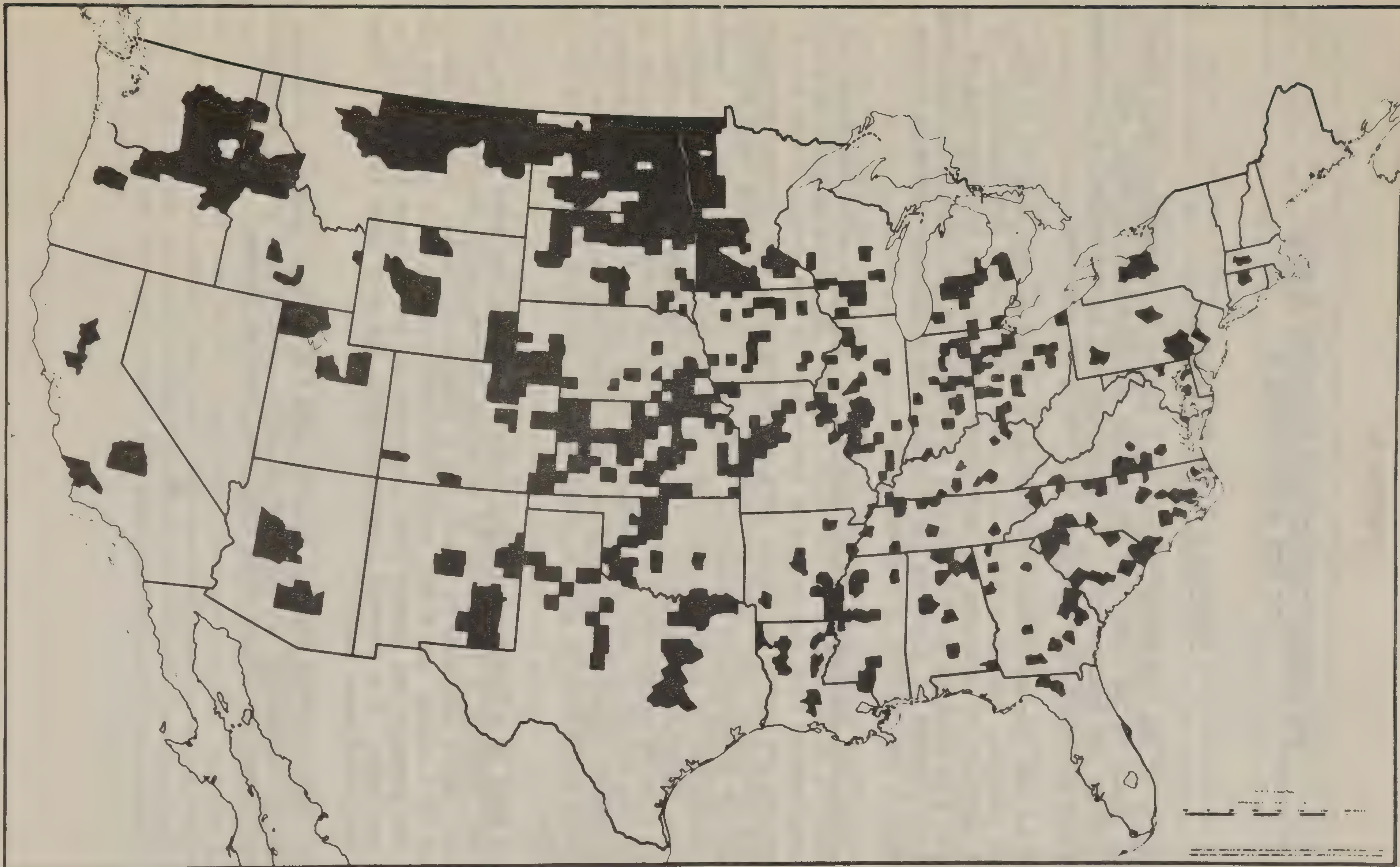

Fig. 2
INSURANCE COUNTIES IN THE 1950 CROP YEAR PROGRAM

CHAPTER IV

THE CURRENT FEDERAL CROP INSURANCE PROGRAM AND ITS ADMINISTRATION

Developing a County Program

Introduction of the insurance program in a county is undertaken only after a careful study of the basic actuarial data and discussions with local farming groups and businessmen. A desire for and appreciation of insurance protection must be evidenced before the county is approved.

Inasmuch as the charter limits the number of counties that may be in the insurance program, the Corporation has developed a guide for selection. A quota of counties is assigned to each state based on the relationship of that state's production of the insured commodity to the national production. The assigned number of counties are distributed within the state to assure experience in the various producing areas.

Premium Rates and Coverages Protect Investment in Crop.--Premium rates are established in relationship to the risk involved and coverages are set at a level commensurate with the farmer's investment in his crop. These rates and coverages are based on yield, cost of production, and farming practice data. The actuarial data used are composed of (1) statistics furnished by the Bureau of Agricultural Economics, Department of Agriculture, (2) local surveys conducted to ascertain the varying productivity risks in a county, and (3) the insurance experience after a county has been in the program. This data must be constantly refined to keep the insurance liability in line with the cultural practice currently being carried out. In addition to the actuarial staff in Washington, the Corporation maintains seven field underwriting districts to give a continuing on the spot survey and review of operations.

Insurance Sold on a Commission Basis.--Once a county has been selected, an educational program is conducted to acquaint farmers with the benefits of insurance. Sales are made by agents on a commission basis. Commissions consisted of a dollar and fifty cents flat rate per contract plus three percent of the premium and varied from a minimum of two dollars to over fifty dollars per sale. The average commission paid for crop year 1950 was three dollars and ninety-one cents.

Since the amount of the premium depends upon the acreage planted it cannot be determined accurately at the time of sale. Therefore, county commission rates were based on the previous crop year premium income.

Beginning with the 1951 crop year, state commission rates are being established using the county formula but the minimum on wheat and multiple crop being set at three dollars instead of two. The main reason behind the increase is the need for greater sales incentives on the part of agents.

The majority of the sales agents are farmers convinced of the value and need for insurance. The Corporation has experimented with using salaried employees to sell insurance but to date the average cost of contracts sold on this basis is considerably higher than on the commission basis. However, it should be noted that the salaried method has only been used in counties where sales and interest were lagging. The lack of enthusiasm on the part of leading farmers in a county is a great handicap to commission agents so a large part of the effort of salaried employees has been directed toward creating the insurance attitude in farmers.

Even though sales on a commission basis is the generally proven method in the insurance business, the results of Federal Crop Insurance sales experience has shown too much variation in the number of applications signed and in the understanding of the program by those who sign. Maybe a fairer test of salaried employees (who are theoretically better trained) should be made in an insurance conscious county on a year round basis rather than during limited periods as at present.

Premiums Mature at Harvest.--At the time an application for insurance is submitted, the farmer signs a note promising to pay his premium after the harvest of his crop. This privilege is granted by law on the premise that the major percentage of farmers do not have the cash available until the crops are marketed. The delaying of paying premiums until harvest permits more farmers to secure the benefits of insurance but has created premium collection and program incentive problems that complicate the administration of the program. If the collection plans discussed in the next chapter on program improvements do not succeed it may be necessary, in certain areas, to go on a cash basis. The collection of premiums in advance is being tried experimentally in one cotton insurance county in crop year 1950. The experience gained in this county as to the effects of advance payments on participation and insurance attitude will be evaluated carefully as a possible solution to other slow paying areas.

Organizational Structure

The Federal Crop Insurance Corporation operates as an agency within the Department of Agriculture. Its over-all program and administrative policies are determined by a Board of Directors consisting of the Under Secretary of Agriculture, the Administrator of the Production and Marketing Administration, the Manager of the Federal Crop Insurance Corporation, and two members from the private insurance field not otherwise employed by the Government. The addition of two private business members was made in the amendment to the act in 1947 to give the Corporation the added advantage of the experience of private insurance.

The Washington Office.--All phases of the insurance program are developed and generally administered by the manager and his staff in the Washington, D. C. office. The manager is assisted in the coordination of field activities with headquarters policy by three area directors. The forty states in which insurance is offered are grouped into the Northern, Southern, and Western Areas (Fig. 3).

Program development and administration are conducted by four program divisions and housekeeping functions performed by two service divisions. The Program Development Division develops and revises the insurance programs for the various commodities and prepares the procedures and forms necessary to implement the programs. The Underwriting Division secures actuarial data affecting each insurance commodity and county and after thorough analyses establishes premium rates and coverages. It also prepares operating procedures and supervises the field underwriting offices.

The Sales Management Division directs the sales program, prepares educational materials to aid in creating a better understanding of crop insurance, and maintains general public relations activities. The Claim Division is responsible for developing and supervising the loss adjustment activities including the selection and training of loss adjusters. This division also handles all cases involving litigation.

Fiscal policy, program accounting, administrative accounting, budgetary operations, and premium collection programs are planned and directed by the Finance Division. The Administrative Division performs the housekeeping functions in connection with personnel, property, supplies, and records.

Branch Office.--The Corporation has one branch office, in Chicago. All insurance documents flow through this office and are audited for compliance with procedure. An account is set up and maintained for each insured. The branch office computes the amount of premium due, prepares the billings, and receives premium payments. It reviews all loss claims and pays indemnities on those it approves. Since machine accounting methods are used, much of the statistical data required by the Washington office is collected and summarized in the branch office.

State Offices.--There are thirty field offices supervising the insurance activities in forty states. State directors have the responsibility of accepting or rejecting insurance applications and issue policies to all farmers accepted. Representatives of the state office inspect growing crops to determine correctness of acreage and conformance with the generally accepted farming practices of the area. This activity is of utmost importance in case a loss claim is submitted at a later date.

The loss adjustment program is the direct responsibility of the Corporation. Adjusters are secured and trained by the state director and his assistants, known as district supervisors. The work of loss adjusters is carefully reviewed and a certain percentage of their loss reports are spot-checked for accuracy and to determine the efficiency of the adjuster.

U. S. DEPARTMENT OF AGRICULTURE NEG. 27744 BUREAU OF AGRICULTURAL ECONOMICS

Fig. 3
CROP INSURANCE AREAS OF OPERATION
State Offices Indicated by Dots

The state offices also assist the counties in conducting sales campaigns, the collection of premiums, and in maintaining public relations in servicing the insurance in force.

Local Work.--The local work at the county level, other than loss adjustment, is performed by the Production and Marketing Administration County Associations under an agreement which compensates them on a work performed basis. Since crop insurance is an important part in the farm program administered by the county associations, it should be handled by the same organization rather than a separate office. This method should also result in a more efficient operation.

The agreement phase of operation was instituted in crop year 1948. In the amendment to the crop insurance act in 1947, the Congress directed the Corporation to maintain control over local operations. Prior to that time, a lump-sum payment was made for local work in advance of such work being performed. Also, the allocation of the funds to local organizations seemed to have no relationship to the volume of work performed or the results obtained. To secure a better coordination of activity and cost and to carry out the Congressional directive concerning local control, the Corporation executed work agreements with each county in the program for fiscal years 1948, 1949, and 1950.

In several instances, county committees would not sign agreements. This necessitated setting up separate Corporation offices at, naturally, a somewhat greater expense. It also created an inconvenience for the farmer in that his business had to be transacted in two offices when one would have been sufficient. To overcome this administrative deficiency, the Secretary of Agriculture and the Administrator of the Production and Marketing Administration directed that the local activities were to be conducted on a unified basis and that the separate offices would be disbanded by June 30, 1950. Further efficiency and assurance of unity was achieved by the signing of one agreement covering all counties rather than signing individual agreements with each county. A copy of the fiscal year 1951 agreement appears in the appendix.

The County Associations conduct the sales campaigns, recruit and train salesmen, and process applications for insurance (including a recommendation for acceptance or rejection). They are also responsible for securing acreage reports listing the plantings of each insured, for collecting the premiums due, transmitting to Corporation state offices notices of loss filed by the insureds, and generally service the insurance in force. The agreement specifies the unit compensation rates for each of these activities, therefore each county association is paid only for the work performed.

The Farmer

No matter how well a program is developed and how good an organization is created to administer it, it cannot succeed if the party to whom all

effort is directed does not do his part. In the crop insurance program, that party is the farmer.

Farmer Must Know the Value of Insurance.—The first step in building a sound insurance operation is to make sure the farmer understands what insurance will do. It is designed to protect his investment in his crop and not to enrich him. After the farmer is convinced that insurance is a good business practice, he must sign an application and execute a note promising to pay his premium after the harvest of his crop. In sharecropper areas it is necessary for the farmer to secure a co-signer on his premium note before the application can be accepted.

Submit an Acreage Report.—The farmer's coverage and premium due cannot be determined accurately until he submits an acreage report. On this report, he lists the number of acres planted in the crop or crops and the interest he has in the planting. If, for example, his interest is one-half, his coverage and premium are limited to that amount. The farmer's responsibility is to be honest in the preparation of this report because under reporting of acreage could have an adverse affect on the county premium rates. The rates of each county are so designed that over a period of years the premiums paid in must cover the indemnities. Under reporting would mean less premiums and higher rates. Such action which would tend to create an undesirable moral attitude on the part of farmers toward insurance.

Follow Accepted Farming Practices.—All during the growing season, the farmer is expected to follow the generally accepted farming practices of his area. Failure to do so, could result in a rejection of any loss claim he may submit at a later date. He is expected to properly prepare the seed bed, fertilize in areas where that is the practice, use good seed, cultivate his crops, and protect them to the extent possible from insect and disease damage.

Report Damage Immediately.—Any material damage to the growing crop must be reported to the county office promptly. This enables the Corporation to check and make a record of the damage while the evidence is still available. Much misunderstanding and dissatisfaction have resulted in the past through failure to give the Corporation adequate notice of possible loss.

Pay the Premiums When Due.—The farmer has an obligation to pay his premium when due. For convenience, the insurance act provides for payment after harvest. There is a great temptation to some to ignore payment of the premium after the risk has passed. The unpaid premiums of some will affect the premium rates of others. The Corporation now cancels the policy of any insured not paying his premium. Thus the benefits of continued insurance are lost.

See That the Program is Operated Honestly.—A program of the nature of crop insurance must necessarily depend upon the cooperation of the insured to obtain complete honesty in operations. A discussion concerning the

development of the mutual aspect of insurance is contained in the chapter on "Program Improvements." If crop insurance is to succeed and serve the purpose for which it was intended, the farmers themselves must realize the need for (1) keeping out producers using undesirable practices or farming high risk land, and (2) honestly complying with and reporting under the regulations prescribed.

Cost of Administration

The cost of administering the crop insurance program is covered by appropriations from the United States Treasury. The question could logically be raised as to why the general taxpayer rather than the premiums bear the cost of administration.

The Congress has directed that the premiums shall over a period of years cover the indemnities only. It is true that private insurance companies must get total expenses from premiums and other income. In many cases the other income of private companies from investments is quite substantial. The Federal Crop Insurance Corporation has no source of income other than premiums since it is not permitted to invest its capital to earn interest or dividends.

Private insurance companies have contended that crop insurance is not profitable - it cannot "pay its own way." For this reason there are no private companies in this field of insurance. Therefore, if an insurance program with such importance to the national economy is to be developed, it must be subsidized to the extent of administrative expenses. This will enable the Corporation to set premium rates that will cover indemnities and yet at a level that will attract the volume of business required to gain the experience necessary to develop a sound financial program. The cost of administration is much lower than disaster relief payments that would be required if there were no insurance. Such payments amounted to six hundred and fifteen million dollars during the ten year period ending June 30, 1936.

When participation reaches a high level and the insurance program is on a national scope of operations, conceivably crop insurance could become self supporting. It would be extremely dangerous to program development during the next few years if the rates constantly fluctuated to reflect the changes that are necessarily associated with an expanding program.

The administrative costs of private companies writing fire and hail insurance range from thirty to forty-five percent of premium income. The Federal Crop Insurance Corporation expenses have ranged from twelve to forty percent of premium income. The Crop Insurance Act limits the administrative expense appropriation to twelve million dollars each fiscal year. The administrative expenses for each fiscal year since 1938 are as follows:

TABLE 3

ADMINISTRATIVE EXPENSES

Fiscal Year	Amount
1938	$ 234,546
1939	4,351,454
1940	5,647,552
1941	5,028,575
1942	6,775,389
1943	6,447,364
1944	1,708,369
1945	2,501,841
1946	6,208,419
1947	6,912,549
1948	4,286,222
1949	4,052,797
1950	4,907,739

CHAPTER V

PROGRAM IMPROVEMENTS

In developing the insurance program the Corporation has proceeded with these objectives: first, it must furnish the kind of insurance protection that the farmer needs; and second, the program must be on a financially sound basis. With this in mind, there have naturally been many so-called trial and error methods. A review of the last ten years points to many improvements in program operations that tend to substantiate the Corporation's feeling that a sound and workable program is being developed.

Participation Standards Raised.--When the program was first offered in 1938, any farmer producing wheat in any county in the United States could be insured. In many instances this resulted in operating a county insurance program with only a few contracts in force. The making of insurance available to all, regardless of the number of participants, resulted in adverse selectivity on the part of the farmer. In many cases, the number of higher risk farmers insured exceeded the number of lower risk farmers thus endangering the program from an actuarial standpoint. When Congress reinstated the program in 1944, a minimum participation of fifty farms was required before insurance could be offered in the county. This provision did not entirely correct the problem, so when the new experimental program was introduced in 1947, participation requirements were increased. Beginning in the 1948 crop year, one-third or two hundred of the farmers, whichever was smaller, in the county had to participate in order to have the insurance program. Also, insurance on a commodity could only be offered in counties in which the commodity provided an important part of the farm income. To further encourage participation of the better farmers, and to reduce adverse selectivity, the Corporation in its new program aims to screen out high risk land and producers. This involves declaring as uninsurable extremely high risk land such as river bottom land subject to floods, and producers known not to comply with accepted farming practices and who have a questionable credit record. The following table summarizes the high risk classification for crop year 1950.

TABLE 4

Commodity	No. of Counties	No. of Acres Uninsurable	No. of Ineligible Producers
Wheat	283	851,558	2,960
Cotton	80	310,370	3,093
Flax	63	47,379	989
Corn	72	970,920	337
Tobacco	52	18,038	4,137
Beans	18	143,942	89
Multiple crop	55	465,852	841
Total	623	2,808,059	12,446

The total acres for weighting in insurance counties is 84,411,290 giving an uninsurable acreage of 3.3 percent.

The Corporation relates coverages and rates to the production and risk of the various areas within the county and establishes coverage and rate areas which include land of similar productivity and risk. Formerly the Corporation had tried, with varying degrees of success, setting rates and coverages for individual farms and for entire counties.

These actions have resulted in a much sounder actuarial basis of insurance and have naturally increased insurance interest and participation on the part of the better farmers.

Loss Adjustment Work More Effective.—When Federal insurance was first offered, the loss adjustment phase of the program was handled by the same local organization that made the sales. The same person selling the insurance could adjust the loss. Such practice, while used by some companies to reduce administrative costs, lends itself to abuse and is not considered a very efficient way in which to control operations. Further, it meant that much time and effort would be spent in trying to train an entire local organization to handle loss adjustment work. Much of this was wasted because many of the people involved would never adjust a loss. Beginning with the reinstatement of the program in 1944, the Corporation was directed by Congress to secure, train, and supervise its own force of loss adjusters independent of the selling organization. Efficient adjustment work is of a vital importance to any insurance program. This is even more true of the Federal Crop Insurance plan than of many private companies, because the adjuster must not only make equitable settlement, but must also be able to adequately explain all phases of the program to the farmer. To achieve this result, the Corporation is now using fewer and better trained adjusters on a more regular basis. Properly trained adjusters can avoid much misunderstanding of the program and will provide greater protection to the insurance reserves of the Corporation.

<u>Continuous Contracts Provide Better Experience</u>.--The best insurance experience for the Corporation is achieved by having maximum participation among the eligible producers in a county. For years insurance was sold on an annual basis, which resulted in a high percentage of farmers insuring one year and not insuring the next; or a great guessing game of when to insure against possible poor crops. Such practices are contrary to the insurance principle of building up reserves in good crop years to cover losses in the poor crop years. To overcome this selectivity the Corporation introduced a three-year contract on wheat in 1943 and a continuous contract in 1948. The continuous contract for cotton was introduced in 1946. The flax contract was issued on a continuous basis beginning in 1948, corn and tobacco in 1949, and multiple crop and beans in 1950. The continuous contract, which contains cancellation provisions for the protection of both the insured and the Corporation, assures consecutive years of insurance coverage for the farmer and is much more economically administered by the Corporation. Commissions do not have to be paid every year and the administrative costs of issuing policies and of setting up and maintaining new files, are greatly reduced.

Cancellation rates on continuous contracts varied from thirteen percent to sixty-two percent in 1949 and from twelve percent to forty-seven percent in 1950. Statewise in 1950, the cancellation rate ranged from zero percent in Utah to sixty-four percent in Louisiana. The national rate for 1950 was twenty-five percent.

Table 5

Summary of Cancellations, 1949 and 1950

Commodity	Percent of Cancellation 1949	1950
Wheat	13	12
Cotton	62	47
Flax	13	20
Corn	--	18
Tobacco	--	31

It should be noted that the higher rates of cancellation are in cotton and tobacco. This is due to the large number of sharecroppers insured, in which cases the Corporation requires advance payment of the premiums or a co-signer to guarantee payment of the premium. The indefiniteness of planting under a sharecropper plan has made it extremely difficult for many sharecroppers to obtain a co-signer and necessitates cancellation of the contract by the Corporation. However, sharecroppers can file a new application for insurance if they meet the requirements before the closing date for sales. Cancellation on the part of the producer under the continuous contract has been extremely small. The bulk of the Corporation cancellations has been due to non-payment of premiums.

Mutual Concept of Insurance Strengthens Local Administration of Program.—The Corporation realizes that is it extremely difficult, if not financially prohibitive to try to adequately administer and police a program of this nature from the national level. To assure that the program is operating in the best interests of the farmer and the Government and that only equitable losses are paid, the Corporation is developing a mutual concept of insurance at the county level. This involves stimulating such an interest on the part of the farmers themselves, that they will assume the responsibility for the operation of a sound program. The farmers now know that the premium rates in their particular county or area will reflect the experience of their particular county or area, regardless of what happens elsewhere. They know that if some farmer collected an indemnity from the Corporation by "hiding" part of his production, or by failure to follow accepted farming practices, which the Corporation is unable to determine, such indemnities will have an adverse effect on their rates. It then becomes the interest of the farmers to see that such losses are not paid and that all high risk land and producers following poor farming practices are declared uninsurable.

The Corporation is trying to create, in effect, county mutual insurance programs, in which premiums will cover indemnities over a period of years with the Corporation itself acting as a reinsurer in the case of catastrophic losses.

Discount and Premium Reduction Incentives.—The Corporation discounts premiums to farmers making early payments and to those who prove themselves as low risks by having continued good insurance experience. The Crop Insurance Act provides that the premium for insurance does not have to be paid until the insured crop is harvested. This provision, while making it possible for more farmers to participate, also has increased the moral risk involved in the collection of premiums. In some cases, it becomes increasingly difficult to collect a premium after the crop has been harvested because the farmer does not thoroughly understand the principle of insurance protection. To minimize the amount of uncollected accounts, the Corporation now offers a five percent discount if the premium is paid at an early date. This plan has been rather successful and in some commodities as high as fifty percent of the premiums have been paid shortly after the crop was planted and long before the farmer could determine whether or not he was going to have a successful crop year. This plan was originally tried on wheat and because of its success has been extended to all insurance programs.

Farmers with good insurance experience earn premium reductions because of such experience.

Since 1941, individual wheat farmers in counties with commodity insurance have received a fifty percent reduction in their premiums whenever the individual insurance reserve equals the current insured coverage. Farmers in counties with monetary insurance receive a twenty-five percent reduction.

Another incentive is offered in all insurance programs to farmers who have lower coverage insurance and could not build up an individual reserve except over a long period of time. If they have seven consecutive years without a loss, these farmers are entitled to a twenty-five percent reduction in premiums.

Whenever a county has accumulated insurance reserves in excess of the reserve requirements established by the Corporation for that county, the premiums of all policyholders are adjusted the following year. This reduction varies in direct relationship in the excess reserve, ranging from five percent to a maximum of thirty percent of the premium. The best benefit from this plan is derived when local administration is at its best. The farmers operating as a mutual association, now have additional incentive in the form of premium reductions for good local administration.

Use of the Fixed Price Contract Eliminates Hedging Operations.--Prior to the amendment to the Act in 1947 insurance premiums were computed at one price and indemnities could very likely be computed at another price. This was due to the provision in the program stating that farmers could pay their premiums in kind or its cash equivalent at the maturity date of the note. The price of the commodity at the maturity date of the note was used in determining the premium. However, when indemnities were approved, the insured could obtain a certificate which he could cash at a later date. When he converted the certificate into cash the price used was the prevailing price at the date of surrendering the certificate. This necessitated costly hedging operations to prevent the Corporation's capital from being subjected to the market fluctuations in the prices of commodities. The Corporation, of necessity, purchased commodities as premiums matured and sold these commodities as indemnity certificates were surrendered. Although this feature generally protected the capital funds, it was an extremely burdensome administrative cost. Such administrative costs were connected with the purchasing, storing, and record keeping of the commodities bought and sold. The amendment to the Act in 1947 provided that premiums and indemnities which were still stated in terms of commodity could be translated into the same cash equivalent based on a predetermined price. Since both premiums and indemnities are now based on the same fixed price, it is no longer necessary for the Corporation to continue hedging operations. This feature has eliminated speculation on the part of the farmer in holding his indemnity certificates in the hopes of benefiting by a rising market.

Coverage Now Limited to Investment in the Crop.--Under the national program, insurance coverage could not be below fifty percent nor above seventy-five percent of the average yield. In many cases coverages were established at levels which actually returned both the investment in the crop and some profit to the farmer. Since the basic purpose of the insurance program is to alleviate economic distress by protecting the farmer's investment in his crop, it became necessary to amend the Act in order to eliminate this profit possibility. The new program provides that the insurance coverage cannot exceed the cost of producing the crop in the area.

Two levels of insurance coverages are offered on investment. Commodity insurance equals the total investment in the crop and approximates sixty percent of the average yield. Monetary insurance, a lower level of coverage with a corresponding lower premium, is available to farmers who feel that they can carry part of their investment risk, but require protection for their so-called "out of pocket cost." This coverage approximates forty percent of the average yield. The farmers in individual counties do not have a choice between these two levels since only one level of coverage prevails in the county. However, the level of coverage is selected by the county committee representing the farmers.

Multiple Crop Insurance for Diversified Farming Areas.—As previously indicated the participation in the insurance program was restricted beginning with crop year 1948 to counties in which the insured commodity constituted an important source of the agricultural income in the county. Although insurance on one crop fills the basic need for protection in some counties, there are many counties where no one crop constitutes the major source of income. To provide insurance protection in such diversified areas the Corporation initiated, as an experiment in two counties in 1948, what is known as the multiple crop insurance policy. Under this policy several crops on the farm are insured with the farm coverage being the total of the coverages of the insured crops. An indemnity is not paid unless the total value of the production of the insured crops, based on predetermined prices, does not equal the coverage for the farm. Under this policy it is entirely possible for a farmer to lose one crop and not collect a loss because the production of the other insured crops exceeds his investment protection. The multiple contract thus becomes catastrophe insurance rather than an individual crop guarantee. This policy proved so popular and so successful that the number of counties was increased to seven in 1949. In discussing the operation of the program with the House Agricultural Committee, in 1949, such interest was expressed for multiple crop insurance, and such high hopes were evidenced as to its future possibilities, that the Congress directed the Corporation to expand multiple crop insurance immediately to between fifty and seventy-five counties and to increase it by twenty-five counties each year thereafter. Under the multiple crop policy, over thirty different commodities are insured in the present counties with no more than seven in any one county. These crops are wheat, cotton, corn, flax, tobacco, dry beans, oats, barley, peanuts, soybeans, grain sorghums, hay, vetch, alfalfa, ryegrasses, Austrian peas, sweet potatoes, green peas, sweet corn, rice, rye, strawberries, sugar beets, sugar cane, sweet clover, buckwheat, potatoes, tomatoes, broom corn.

The outlined improvements are by no means all inclusive but do represent the major advances. The Corporation staff is constantly working toward simplifying and yet strengthening the insurance program so that it will serve the needs of the farmer and in turn the national economy. This is being accomplished with the view in mind of having low cost but effective administration and a premium rate that is acceptable to the farmer and will yet produce income sufficient to cover the indemnity losses.

CHAPTER VI

THE FUTURE OF FEDERAL CROP INSURANCE

The foregoing may sound extremely optimistic and imply that the future of crop insurance is one of assured success. Such is not the intent for there are yet many problems to be solved and many weaknesses that could spell disaster for the program. Continued and growing operations are dependent upon three points (1) increased participation on the part of the farmer, (2) financial soundness of insurance operations, and (3) increasingly effective and efficient administration of the program.

The Congress will watch closely the progress on these points in reviewing the operations of the Corporation. The Congressional attitude in the last few years, while firm, has been tolerant and sympathetic. The Committees reviewing operations have clearly indicated that they realize the tremendous obstacles that must be overcome in building a successful program. This attitude may be seen in this statement from the report of the House Committee on Agriculture recommending the new insurance program:[8]

> The committee believes that it is possible eventually to write crop insurance that will meet both these basic qualifications. It does not believe that this can be accomplished overnight nor that it is reasonable to expect that a half-dozen crop seasons of experience will achieve for crop insurance what it took other forms of commodity insurance many years of trial and error to develop. The committee is convinced, however, that the best interests of farmers themselves will be most truly served if the Public Treasury is protected against excessive loss, by curtailment of the insurance program during its development period to the smallest scale consistent with effective experimentation, and expanding it later only when experience had indicated that a sound insurance plan has been worked out.

Increased Participation Necessary

The best insurance experience is obtained from maximum participation in the program. It is felt that at least from thirty to fifty percent, depending upon the commodity, of the eligible producers should be in the program to give results that can be properly evaluated. The following table of the new program participation experience shows that there is still plenty of room for expansion.

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[8]U. S. Congress, House of Representatives, Agriculture Committee, House Report 470, to accompany H. R. 3465, 80th Cong., 1st Sess. (Washington: Government Printing Office, 1947), p. 4

TABLE 6

PERCENTAGE OF ELIGIBLE PRODUCERS PARTICIPATING

Commodity	Crop Year		
	1948	1949	1950
Wheat	37	21	21
Cotton	13	16	30
Flax	35	40	36
Corn	17	19	20
Tobacco	35	29	46
Beans	26	29	20
Multiple crop	16	19	22

Increasing participation just to have a larger percentage should not be the goal. The aim should be toward including those farmers that appreciate the real value of insurance as a protection of investment rather than a chance to "make money."

Life insurance companies are very careful concerning the volume of the different kinds of risks that they will assume. The Corporation likewise needs to be extremely cautious in expanding in certain areas. The cotton program has resulted in a loss every year except 1948. The heavy cotton losses of 1945 and 1946 caused the Congress to reduce the entire program to an experimental basis in 1948. Expansion in the cotton area should be very moderate, if at all, until a better actuarial basis is established.

Any unusual increase in participation should be viewed, not necessarily with alarm, but with caution. Cotton again offers a typical example. Participation has been low, thirteen percent in 1948 and sixteen percent in 1949. The 1950 participation level should have been watched, in view of the mild winter in the cotton belt and the great infestation of boll weevil indicating another year of heavy losses. However, sales did not proceed with caution with the result that cotton contracts exceeded expected sales by some two hundred percent and the participation level jumped up to thirty percent. If damp weather prevails, the boll weevil damage could be disastrous. The Corporation, however, has warned each insured that he is expected to comply with good farming practices and spray insecticides. Neglect of crop causes forfeiture of insurance rights.

This illustrates that while increased participation is desirable, it does bring administrative management problems concerning the level of participation for prudent operations on the one hand and the legality of limiting participation in a Federally operated program on the other.

A solution to this problem could possibly be found in using flexible closing dates for sales. At the present fixed dates controlling different phases of a program are established in advance. One of these dates is the closing date for sales and once announced becomes the earliest date on which sales may be stopped. It has been suggested that the Corporation adopt a policy of flexible dates that could be moved forward or backward to adjust the program to the current conditions. A precedent for changing closing dates has already been established. However, such action has always been moving the date forward. This has generally been done when unfavorable winter weather conditions has delayed spring planting and thus interfered with sales campaigns. It seems just as logical that adverse situations may arise, such as that in cotton, which might warrant moving the closing date back to an earlier one to prevent the insureds from taking advantage of the Corporation and thus jeopardize its capital and future. The closing dates for each year could be announced as a time period rather than a specific date, for example, between March 15 and April 30, the exact date being dependent upon the current local conditions. Not only would such a policy give the Corporation flexibility in coping with emergency situations, it would also stimulate those farmers having a real appreciation and understanding of insurance to purchase at the earliest date to avoid having no insurance. In addition to having a more spirited and early sales campaign, the increased administrative costs in handling heavy workloads in connection with last minute sales campaigning could be avoided.

Financial Soundness Essential

The Congress has warned that undue losses would indicate that a sound program of crop insurance is impossible and therefore should be abandoned. Such was the case when the program was ordered liquidated in 1944. Undue losses means paying indemnities not properly correlated with the prevailing crop conditions. In other words, the Corporation is expected to follow the true insurance pattern for which it was designed - that of building up reserves in good crop years to cover losses in poor crop years. The Corporation must not lose nationally in a good crop year. However, when there are bad crop years, the Congress could possibly become impatient and alarmed and, remembering earlier history, liquidate the Corporation. A good example that crop insurance is a long range proposition is furnished by wheat. Even with a limited program in 1948, wheat premiums almost balanced indemnities over the ten year period. The heavy losses of the first years were offset by the premium surpluses of succeeding years.

Expansion Should be Limited.--While the Corporation has the authority to increase the number of counties each year, this authority need not be used to the full extent granted. Too rapid expansion could endanger the financial structure of the program because of poor geographical distribution of risk, the lack of actuarial data in new areas, and the lack of competent personnel to supervise an expanded program.

The establishment of the new citrus program was considered extremely dangerous because of the four million dollar potential liability in two adjoining counties. The risk, representing almost twenty percent of the total estimated premium income, was not spread out. A disaster in one county was almost certain in the next. The insurance counties in a program covering natural hazards should be so distributed that the various geographical farming areas are balanced. Only nationally poor weather conditions could cause a financial catastrophe. Such conditions are extremely unusual.

The actuarial data needs to be studied and thoroughly analyzed before a program is offered in a county. Too rapid expansion could easily result in inadequate analysis because of time limitations to get the job completed. The resulting rates and coverages could cause financial difficulties by attracting only the fringe operators or establishing coverages too high in relation to the risk involved.

Optimism over the new program with the resulting eagerness to expand could cause an oversight on adequacy of personnel. One of the major causes of failure in the private crop insurance companies and one of the contributing factors in the early setbacks of the Federal Corporation was inexperienced personnel. A large percentage of the personnel that operated the successful new insurance program have had over five years of experience. The personnel operating in the field, explaining the program to the farmer, gathering acreage reports, collecting premiums, and handling loss claims, comprise the group basically responsible for the success of operations. Such people cannot be trained overnight. Expansion that is so rapid that personnel could not be trained properly would result in an inefficient operation of the program. Failure to properly screen risks, service the insurance in force, and adjust losses would not only create a financially unsound program but also would lose the interest of the better farmers.

Effective Administration Important

Success and continuance of the program in the future are dependent upon the development of a sound program, effectively administered. The manager of the Corporation has stated in hearings before Congressional committees that there were early administrative mistakes. Some were probably avoidable but the majority were the natural results of experimentation in developing a new field of insurance. The Corporation has profited from its experience and there has evolved a firm foundation on which the program is administered. The manager expressed this clearly before the House Appropriations Committee when testifying on the 1951 budget:[9]

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[9]U. S. Congress, House of Representatives, Department of Agriculture Appropriations for 1951, Hearings before the Subcommittee of the Committee on Appropriations, House of Representatives, 81st Congress, 2nd Sess., February 8, 1950 (Washington: Government Printing Office, 1950), p. 1579, 1580.

Out of the eleven years of experience with crop insurance there have emerged certain principles and policies which are absolutely fundamental to sound crop insurance operations.

First - There must be a real understanding on the part of everyone that crop insurance is protection. It does not take the place of a good crop. Every policyholder must honestly hope that he will never collect an indemnity, yet at the same time, he must realize that it is a part of good business management to be protected against the unavoidable every year. This requires continuous and intensive educational work.

Second - The program must be actuarially sound with premium rates for each county reflecting the operating experience of that county. This places upon the farmers and local administrators the responsibility to operate a sound program on a mutual insurance basis to build up county reserves in good crop years to pay county losses in below average crop years.

Third - The program must be developed to provide the insurance protection the farmers need. Although development must be in as practicable and reasonably simple manner as possible, variances of local needs prevent it from being uniform.

Fourth - A good insurance program is one that will have a stabilizing effect on the entire economy of the county by furnishing a "cushion" to the economic shock of a poor crop year and yet being financially sound. Business as well as the farmer himself is adversely affected if a crop is lost. This goal can be best achieved by building up maximum participation through an educational program of convincing the farmer that crop insurance is as much a part of his business as fire insurance is to the store in town.

Fifth - Good administration at all levels, from the salesman and adjuster in the field to the Washington office, is of utmost importance. Administration of every phase of the program must be as efficient and as effective as possible to keep unit administrative costs low, adequately service the contracts in force, and protect the insurance reserves.

Interest and Support of Financial Organizations

In the last few years there has been a growing interest in crop insurance on the part of banks and other organizations that extend credit to farmers. Most of these organizations are privately owned and

operated. They realize the value of the security offered by a crop insurance policy. In many instances loans have not been made until the farmer purchased insurance. In communities where the insurance program is supported by the local financial organizations, crop insurance is considered an important part of the business of farming and is not another "give away" program. Most of this interest has been spotted in different localities with no apparent effort to publicize the loan security benefits nationally. Much could be done to get national banking and credit institutions interested in fostering the good business aspect of insured farming operations. By approaching the secured loan problem on a national basis, a more coordinated and effective program of business relationships could be developed.

Price Insurance

The latest angle injected into the insurance picture by Congressional leaders is price insurance. Chairman of the House Agriculture Committee, Harold D. Cooley, North Carolina, has recommended that a study be made to substitute price insurance for the present price support program. Before adding the price feature, the Congress should hold complete and exhaustive hearings. Everyone should be made to realize the great possibility that a price insurance program linked up with production insurance could be an annual losing operation from the Corporation financial point of view. It must be remembered that price insurance was one of the factors in the failure of private companies.

Where to From Here

The ultimate goal of crop insurance is a single policy available to all farmers covering all farm operations. However, before this goal can be reached the many intricate problems connected with individual commodities must be solved. The multiple crop policy is a step in the direction toward farm coverage rather than commodity coverage. It is believed that if the program is expanded at a moderate rate, at least a rate consistent with good program and financial administration, a workable insurance operation for the entire nation can be developed.

Crop Insurance is both a financial and social experiment. Can the farmers through the pooling of insurance premiums relieve themselves of economic distress and thereby assure the nation of continued productive efforts and a release from relief operations? Patience, determination, and a willingness to risk capital have been the cornerstones of our way of "doing business." The application of the same principle to an activity of such magnitude and far reaching effect as crop insurance will solve the problems and after mistakes of various degrees emerge successful.

SUMMARY

All sound businessmen protect the loss of their investment in operating property by means of insurance. As products move through the various stages of manufacture and distribution, insurance coverage provides security from loss or destruction of such products. The businessman assures himself of at least the recovery of his investment so that he may continue in business. Much of this business life and prosperity is dependent upon the success of agricultural operations and yet agriculture has been without such insurance protection.

Efforts of Private Insurance Companies End in Failure.--Recognizing the need for and the stabilizing effect of agricultural insurance on our entire economy, private underwriters began selling all-risk crop insurance in 1899. This insurance offered protection against all weather, insect, and disease hazards. Through the next forty years, several companies attempted to operate all-risk crop insurance programs. Every attempt failed. Failure was due to (1) insuring the price risk as well as the production risk, (2) inadequate data on which to base insurance rates and coverages, (3) adverse selectivity on the part of the farmer, (4) poor management and inefficient insurance personnel, and (5) inadequate capital to withstand severe initial losses.

Establishment of the Federal Crop Insurance Program.--The failure of private insurance companies did not end the need or demand for all-risk crop insurance. Widespread suffering and large emergency relief appropriations by the Federal government pointed up the national interest in the farmer. When the farmer under extremely favorable conditions produced more than the economy could consume it became necessary to support the price of agricultural commodities to avoid an unbalanced economic structure and thereby invite possible economic collapse. Such aid was of little avail to those farmers and their dependent businessmen if there was a crop failure. To overcome this deficiency in the farm program, the Federal government created in 1938 the Federal Crop Insurance Corporation to protect farmers against risks over which they had no control.

National Operations.--Federal crop insurance programs have gone through three stages of development. The first began with the insurance of wheat in 1939 on a national basis. Cotton was added to the program in 1942, and was also offered on a national basis. The first five years of operations resulted in losses each year as a result of bad weather and adverse selectivity. Because of the heavy losses, the Congress ordered liquidation of the program in 1944.

Such a great need for crop insurance was evidenced during the political campaign of 1944, the program was re-instituted and flax was added on a national basis. Tobacco and corn were also added on a limited basis. Operations for the next two years resulted in profits on wheat and tobacco, break-even on flax, and losses on corn and cotton. The cotton losses were so large as to increase materially the over-all program deficit. National operations at the end of the crop year 1947 showed a total deficit of seventy-three million dollars.

Congress Restricts Operations.--Beginning with the 1948 crop year the Congress placed the insurance program on a limited, experimental basis. Insurance was offered in a total of three hundred and seventy-five counties on wheat, cotton, flax, corn, tobacco, dry beans, and multiple crops. The limited program was directed in order that the Corporation could develop sound bases for future national programs. Many changes were made in the insurance base and in the administration of the program. Operations for crop years 1948 and 1949 resulted in a premium surplus.

Expansion of the Program.--The Congress reviewed operations in 1949 and decided that the program was on a sufficiently sound basis to warrant progressive expansion. The expansion authorized is that beginning with the 1950 crop year the number of counties in which insurance could be offered may be increased by fifty percent of the basic authorization. In accordance with this formula, insurance was offered in six hundred and twenty-four counties in crop year 1950.

The Future of Crop Insurance.--While the Corporation has made many program improvements over the last ten years which indicate that the insurance program is on a sound and workable basis, there is no assurance of success. There are still weaknesses that could spell disaster. The future is dependent upon increased participation, financial soundness, and effective and efficient administration.

Participation at present ranges from twenty to forty-six percent of the eligible producers. Although there is plenty of room for increased participation, care must be exercised to see that any expansion is properly balanced. The risk should be spread rather than concentrated to avoid the financial calamity that could result from poor crop conditions in the concentrated area. Flexible closing dates for accepting applications seem to offer a possible solution to the problem of cutting off sales campaigns in areas that appear to have more than normal risk because of current conditions.

Expansion is desirable to make insurance available to all farmers. However, for the future of the program expansion should be limited to the number of counties that can be carried financially. Too rapid expansion could endanger the financial structure of the program because of poor geographical distribution of risk, the lack of actuarial data in new areas, and the lack of competent personnel to supervise an expanded program.

Businessmen are becoming more interested in crop insurance and realize its worth as a stabilizing factor in the local economy. In many cases loans have not been made unless secured by crop insurance. Such interest could be expanded to national banking and credit institutions which in turn could foster the good business principle of insured farming operations.

Crop insurance will eventually succeed on a national basis. Mistakes, of course, will be made. They can prove costly and even disastrous for the Federal Crop Insurance Corporation. Regardless of the organization responsible for future operations, whether public or private, crop insurance is now established as a basic fundamental in the business of farming and is so essential to a more stabilized economy that it must and will be made to work.

A P P E N D I X

[Note: The Federal Crop Insurance Act (52 Stat. 72), approved February 16, 1938, has been amended as follows: June 22, 1938, by 52 Stat. 835; June 21, 1941, by 55 Stat. 255; December 23, 1944, by 58 Stat. 918; August 1, 1947, by 61 Stat. 718; and on August 25, 1949, by Public Law 268, 81st Congress.]

Short Title and Application of Other Provisions

Sec. 501. This title may be cited as the "Federal Crop Insurance Act." Except as otherwise expressly provided the provisions in titles I to IV, inclusive, shall not apply with respect to this title, and the term "Act" wherever it appears in such titles shall not be construed to include this title. 1/ (7 U.S.C. 1501)

Declaration of Purpose

Sec. 502. It is the purpose of this title to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance and providing the means for the research and experience helpful in devising and establishing such insurance. (7 U.S.C. 1502)

Sec. 503. To carry out the purposes of this title, there is hereby created as an agency of and within the Department of Agriculture a body corporate with the name "Federal Crop Insurance Corporation" (herein called the Corporation). The principal office of the Corporation shall be located in the District of Columbia, but there may be established agencies or branch offices elsewhere in the United States under rules and regulations prescribed by the Board of Directors. (7 U.S.C. 1503)

Capital Stock

Sec. 504 (a) The Corporation shall have a capital stock of $100,000,000 subscribed by the United States of America, payment for which shall, with the approval of the Secretary of Agriculture, be subject to call in whole or in part by the Board of Directors of the Corporation. (7 U.S.C. 1504 (a))*

(b) There is hereby authorized to be appropriated such sums as are necessary for the purpose of subscribing to the capital stock of the Corporation. (7 U.S.C. 1504 (b))*

1/ The Federal Crop Insurance Act is title V of the Agricultural Adjustment Act of 1938. (52 Stat. 31)

* Sections followed by * changed on August 25, 1949, by Public Law 268, 81st Congress.

(c) Receipts for payments by the United States of America for or on account of such stock shall be issued by the Corporation to the Secretary of the Treasury and shall be evidence of the stock ownership by the United States of America. (7 U.S.C. 1504 (c))

Management of Corporation

Sec. 505. (a) The management of the Corporation shall be vested in a Board of Directors (hereinafter called the "Board") subject to the general supervision of the Secretary of Agriculture. The Board shall consist of the manager of the Corporation, two other persons employed in the Department of Agriculture, and two persons experienced in the insurance business who are not otherwise employed by the Government. The Board shall be appointed by, and hold office at the pleasure of the Secretary of Agriculture, who shall not, himself, be a member of the Board. (7 U.S.C. 1505 (a))

(b) Vacancies in the Board so long as there shall be three members in office shall not impair the powers of the Board to execute the functions of the Corporation, and three of the members in office shall constitute a quorum for the transaction of the business of the Board. (7 U.S.C. 1505 (b))

(c) The Directors of the Corporation who are employed in the Department of Agriculture shall receive no additional compensation for their services as such Directors but may be allowed necessary traveling and subsistence expenses when engaged in business of the Corporation, outside of the District of Columbia. The members of the Board who are not employed by the Government shall be paid such compensation for their services as directors as the Secretary of Agriculture shall determine, but such compensation shall not exceed $50 per day each when actually employed and transportation expenses plus not to exceed $10 per diem in lieu of subsistence expenses when on business of the Corporation away from their homes or regular places of business. (7 U.S.C. 1505 (c))

(d) The manager of the Corporation shall be its chief executive officer, with such power and authority as may be conferred upon him by the Board. He shall be appointed by, and hold office at the pleasure of, the Secretary of Agriculture. (7 U.S.C. 1505 (d))

General Powers

Sec. 506. The Corporation --

(a) shall have succession in its corporate name; (7 U.S.C. 1506 (a))

(b) may adopt, alter, and use a corporate seal, which shall be judicially noticed; (7 U.S.C. 1506 (b))

(c) may make contracts and purchase or lease and hold such real and personal property as it deems necessary or convenient in the transaction

of its business, and may dispose of such property held by it upon such terms as it deems appropriate; (7 U.S.C. 1506 (c))

(d) subject to the provisions of section 508 (c), may sue and be sued in its corporate name in any court of record of a State having general jurisdiction, or in any United States district court, and jurisdiction is hereby conferred upon such district court to determine such controversies without regard to the amount in controversy: Provided, That no attachment, injunction, garnishment, or other similar process, mesne or final, shall be issued against the Corporation or its property; (7 U.S.C. 1506 (d))

(e) may adopt, amend, and repeal by-laws, rules and regulations governing the manner in which its business may be conducted and the powers granted to it by law may be exercised and enjoyed; (7 U.S.C. 1506 (e))

(f) shall be entitled to the free use of the United States mails in the same manner as the other executive agencies of the Government; (7 U.S.C. 1506 (f))

(g) with the consent of any board, commission, independent establishment, or executive department of the Government, including any field service thereof, may avail itself of the use of information, services, facilities, officials, and employees thereof in carrying out the provisions of this title; (7 U.S.C. 1506 (g))

(h) may conduct researches, surveys, and investigations relating to crop insurance and shall assemble data for the purpose of establishing sound actuarial bases for insurance on agricultural commodities; (7 U.S.C. 1506 (h))

(i) shall determine the character and necessity for its expenditures under this title and the manner in which they shall be incurred, allowed, and paid, without regard to the provisions of any other laws governing the expenditure of public funds and such determinations shall be final and conclusive upon all other officers of the Government; and (7 U.S.C. 1506 (i))

(j) shall have such powers as may be necessary or appropriate for the exercise of the powers herein specifically conferred upon the Corporation and all such incidental powers as are customary in corporations generally. (7 U.S.C. 1506 (j))

Personnel

Sec. 507 (a) The Secretary shall appoint such officers and employees as may be necessary for the transaction of the business of the Corporation pursuant to civil service laws and regulations, fix their compensation in accordance with the provisions of the Classification Act of 1923, as amended, define their authority and duties, delegate to them such of the powers vested in the Corporation as he may determine, require bond of such of them as he may designate, and fix the penalties and pay the pre-

miums of such bonds: Provided, That personnel paid by the hour, day, or month when actually employed, and county crop insurance committeemen may be appointed and their compensation fixed without regard to civil service laws and regulations or the Classification Act of 1923, as amended. (7 U.S.C. 1507 (a))*

(b) Insofar as applicable, the benefits of the Act entitled "An Act to provide compensation for employees of the United States suffering injuries while in the performance of their duties, and for other purposes", approved September 7, 1916, as amended, shall extend to persons given employment under the provisions of this title, including the employees of the committees and associations referred to in subsection (c) of this section and the members of such committees. (7 U.S.C. 1507 (b))

(c) The Board may establish or utilize committees or associations of producers in the administration of this title and make payments to such committees or associations to cover the estimated administrative expenses to be incurred by them in cooperating in carrying out this title and may provide that all or part of such estimated expenses may be included in the insurance premiums provided for in this title. (7 U.S.C. 1507 (c))

(d) The Secretary of Agriculture may allot to bureaus and offices of the Department of Agriculture or transfer to such other agencies of the State and Federal Governments as he may request to assist in carrying out this title any funds made available pursuant to the provisions of section 516 of this Act, except that employees or agencies responsible for administering this Act in each county shall be selected and designated by the Corporation and shall be responsible directly to the Corporation without the intervention of any intermediate office or agency. (7 U.S.C. 1507 (d))

Crop Insurance

Sec. 508. To carry out the purposes of this title the Corporation is authorized and empowered —

(a) Commencing with crops planted for harvest in 1948, for the purpose of determining the most practical plan, terms, and conditions of insurance for agricultural commodities, if sufficient actuarial data are available, as determined by the Board, to insure, or to reinsure insurers of, producers of such agricultural commodities under any plan or plans of insurance determined by the Board to be adapted to any such commodity. Such insurance shall be against loss of the insured commodity due to unavoidable causes, including drought, flood, hail, wind, frost, winterkill, lightning, fire, excessive rain, snow, wildlife, hurricane, tornado, insect infestation, plant disease, and such other unavoidable causes as may be determined by the Board: Provided, That, except in the case of tobacco, such insurance shall not extend beyond the period the insured commodity is in the field. In 1948 insurance shall be limited to not more than

seven agricultural commodities (including wheat, cotton, flax, corn, and tobacco) and to not more than three additional agricultural commodities in each year thereafter: Provided, That other agricultural commodities may be included in multiple crop insurance (insurance on two or more agricultural commodities under one contract with a producer). Insurance shall be limited to producers in not to exceed two hundred counties in the case of wheat, fifty-six counties in the case of cotton, fifty counties each in the case of corn and flax, thirty-five counties in the case of tobacco, twenty counties in the case of any other agricultural commodity, and, in addition, fifty counties in the case of multiple crop insurance: Provided, That, beginning with crops planted for harvest in 1950, and continuing through the crops planted for harvest in 1951, 1952, and 1953, the number of counties for insurance on wheat, cotton, corn, flax, and tobacco, and for multiple crop insurance may be increased each year by not in excess of 50 per centum of the number of counties specified above and the county limitations specified for other insurance may be similarly increased as to any agricultural commodity after insurance for such commodity has been provided for three years. Reinsurance for private insurance companies shall be limited to not to exceed twenty counties which may be selected without regard to the other county limitations specified herein. Any insurance offered against loss in yield shall not cover in excess of 75 per centum of the recorded or appraised average yield of the commodity on the insured farm for a representative period subject to such adjustments as the Board may prescribe to the end that the average yields fixed for farms in the same area, which are subject to the same conditions, may be fair and just: Provided, That if 75 per centum of the average yield represents generally more protection than the investment in the crop in any area, taking into consideration recognized farming practices, the Board shall reduce such maximum percentage so as more nearly to reflect the investment in the crop in such area. Insurance provided under this subsection shall not cover losses due to the neglect or malfeasance of the producer, or to the failure of the producer to reseed to the same crop in areas and under circumstances where it is customary to so reseed, or to the failure of the producer to follow established good farming practices. Counties selected by the Board shall be representative of the several areas where the agricultural commodity insured is normally produced. The Board may limit or refuse insurance in any county or area, or on any farm, on the basis of the insurance risk involved. Insurance shall not be provided in any county unless written applications therefor are filed covering at least two hundred farms or one-third of the farms normally producing the agricultural commodity, excluding farms refused insurance on the basis of the risk involved; nor shall insurance on any agricultural commodity be provided in any county in which the Board determines that the income from such commodity constitutes an unimportant part of the total agricultural income of the county. The Corporation shall report annually to the Congress the results of its operations as to each commodity insured. (7 U.S.C. 1508 (a))*

(b) To fix adequate premiums for insurance in the agricultural commodity or in cash, at such rates as the Board deems sufficient to cover claims for crop losses on such insurance and to establish as expeditiously as possible a reasonable reserve against unforeseen losses: Provided,

That such premiums may be established on the basis of the parity or comparable price for the commodity as determined and published by the Secretary of Agriculture, or on the basis of an average market price designated by the Board. Such premiums shall be collected at such time or times, or shall be secured in such manner, as the Board may determine. (7 U.S.C. 1508 (b))*

(c) To adjust and pay claims for losses in the agricultural commodity or in cash, under rules prescribed by the Board: Provided, That indemnities may be determined on the same price basis as premiums are determined for the crop with respect to which such indemnities are paid. The Corporation shall provide for the posting annually in each county at the county courthouse of a list of indemnities paid for losses on farms in such county. In the event that any claim for indemnity under the provisions of this title is denied by the Corporation, an action on such claim may be brought against the Corporation in the United States district court, or in any court of record of the State having general jurisdiction, sitting in the district or county in which the insured farm is located, and jurisdiction is hereby conferred upon such district courts to determine such controversies without regard to the amount of controversy: Provided, That no suit on such claim shall be allowed under this section unless the same shall have been brought within one year after the date when notice of denial of the claim is mailed to and received by the claimant. (7 U.S.C. 1508 (c))*

(d) From time to time, in such manner and through such agencies as the Board may determine, to purchase, handle, store, insure, provide storage facilities for, and sell the agricultural commodity, and pay any expenses incidental thereto, it being the intent of this provision, however, that, insofar as practicable, the Corporation shall purchase the agricultural commodity only at the rate and to a total amount equal to the payment of premiums in cash by farmers or to replace promptly the agricultural commodity sold to prevent deterioration; and shall sell the agricultural commodity only to the extent necessary to cover payments of indemnities and to prevent deterioration: Provided, however, That nothing in this section shall prevent prompt off-set purchases and sales of the agricultural commodity for convenience in handling. Nothing in this section shall prevent the Corporation from accepting, for the payment of premiums, notes payable in the commodity insured, or the cash equivalent, upon such security as may be determined pursuant to subsection (b) of this section, and from purchasing the quantity of the commodity represented by any of such notes not paid at maturity. The restriction on the purchase and sale of the agricultural commodity provided in this section shall be made a part of any crop insurance agreement made under this title. Notwithstanding any provision of this title, there shall be no limitation upon the legal or equitable remedies available to the insured to enforce against the Corporation the foregoing restriction with respect to purchases and sales of the agricultural commodity. (7 U.S.C. 1508 (d))

(e) In connection with insurance upon yields of cotton, to include provision for additional premium and indemnity in terms of lint cotton to cover loss of cottonseed, such additional premium and indemnity

to be determined on the basis of the average relationship between returns from cottonseed and returns from lint cotton for the same period of years as that used for computing yields and premium rates. (7 U.S.C. 1508 (e))

Indemnities Exempt from Levy

Sec. 509. Claims for indemnities under this title shall not be liable to attachment, levy, garnishment, or any other legal process before payment to the insured or to deduction on account of the indebtedness of the insured or his estate to the United States except claims of the United States or the Corporation arising under this title. (7 U.S.C. 1509)

Deposit of Funds

Sec. 510. All money of the Corporation not otherwise employed may be deposited with the Treasurer of the United States or in any bank approved by the Secretary of the Treasury, subject to withdrawal by the Corporation at any time, or with the approval of the Secretary of the Treasury may be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States. Subject to the approval of the Secretary of the Treasury, the Federal Reserve banks are hereby authorized and directed to act as depositories, custodians, and fiscal agents for the Corporation in the performance of its powers conferred by this title. (7 U.S.C. 1510)

Tax Exemption

Sec. 511. The Corporation, including its franchise, its capital, reserves, and surplus, and its income and property, shall be exempt from all taxation now or hereafter imposed by the United States or by any Territory, dependency, or possession thereof, or by any State, county, municipality or local taxing authority. (7 U.S.C. 1511)

Fiscal Agent of Government

Sec. 512. When designated for that purpose by the Secretary of the Treasury, the Corporation shall be a depository of public money, except receipts from customs, under such regulations as may be prescribed by said Secretary; and it may also be employed as a financial agent of the Government; and it shall perform all such reasonable duties, as a depository of public money and financial agent of the Government, as may be required of it. (7 U.S.C. 1512)

Accounting by Corporation

Sec. 513. The Corporation shall at all times maintain complete and accurate books of account and shall file annually with the Secretary of Agriculture a complete report as to the business of the Corporation. The financial transactions of the Corporation shall be audited at least once each year by

the General Accounting Office for the sole purpose of making a report to Congress, together with such recommendations as the Comptroller General of the United States may deem advisable: Provided, That such report shall not be made until the Corporation shall have had reasonable opportunity to examine the exceptions and criticisms of the Comptroller General or the General Accounting Office, to point out errors therein, explain or answer the same, and to file a statement which shall be submitted by the Comptroller General with his report. (7 U.S.C. 1513)

Crimes and Offenses

Sec. 514. (a)-(e). 2/

(f) The provisions of section 22 of Title 41 shall not apply to any crop insurance agreement made under this chapter. 2/ 3/ (7 U.S.C. 1514 (f))

Advisory Committee

Sec. 515. The Secretary of Agriculture is authorized to appoint from time to time an advisory committee, consisting of not more than five members experienced in agricultural pursuits and appointed with due consideration to their geographical distribution, to advise the Corporation with respect to carrying out the purposes of this title. The compensation of the members of such committee shall be determined by the Board but shall not exceed $10 per day each while actually employed and actual necessary traveling and subsistence expenses, or a per diem allowance in lieu thereof. (7 U.S.C. 1515)

Appropriations and Regulations

Sec. 516. (a) There are hereby authorized to be appropriated such sums, not in excess of $12,000,000 for each fiscal year beginning after June 30, 1938, as may be necessary to cover the operating and administrative costs of the Corporation, which shall be allotted to the Corporation in such amounts and at such time or times as the Secretary of Agriculture may determine: Provided, That expenses in connection with the purchase, transportation, handling, or sale of the agricultural commodity may be considered by the Corporation as being nonadministrative or nonoperating expenses. For the fiscal year ending June 30, 1939, the appropriation authorized under this subsection is authorized to be made only out of the unexpended balances for the fiscal year ending June 30, 1938, of the sums appropriated pursuant to section 15 of the Soil Conservation and Domestic Allotment Act, as amended. (7 U.S.C. 1516 (a))

2/ (a)-(e) inclusive repealed and (f) amended to read as above quoted by 62 Stat. 859, 862 effective September 1, 1948. See appendix for current criminal provisions.

3/ Section 22 of Title 41 (41 U.S.C. 22) requires that Government contracts contain an express provision stating that no member of Congress shall share in benefits of contract.

(b) The Secretary and the Corporation, respectively, are authorized to issue such regulations as may be necessary to carry out the provisions of this title. (7 U.S.C. 1516 (b))

Separability

Sec. 517. The sections of this title and subdivisions of sections are hereby declared to be separable, and in the event any one or more sections or parts of the same of this title be held to be unconstitutional, the same shall not affect the validity of other sections or parts of sections of this title. (7 U.S.C. 1517)

Sec. 518. "Agricultural commodity", as used in this title, means wheat, cotton, flax, corn, dry beans, oats, barley, rye, tobacco, rice, peanuts, soybeans, sugar beets, sugarcane, timber and forests, potatoes and other vegetables, citrus and other fruits, tame hay, or any other agricultural commodity determined by the Board pursuant to subsection (a) of section 508 of this title, or any one or more of such commodities, as the context may indicate. (7 U.S.C. 1518)*

Right to Amend

Sec. 519. The right to alter, amend, or repeal this title is hereby reserved. (7 U.S.C. 1519) 4/

4/ Public Law 268 of August 25, 1949, 81st Congress, contains two sections not quoted herein. They are sections 5 and 11. Section 5 directs the Secretary of the Treasury to cancel outstanding receipts for payments on stock of the Corporation in excess of $27,000,000. Section 11 authorizes the Corporation to use any available funds to institute the authorized expanded program in the 1950 crop year, pending the appropriation of supplemental funds. Section 5 of Public Law 320 of August 1, 1947, 80th Congress (61 Stat. 718), provides that nothing in that law shall be construed to affect the validity of insurance contracts in existence on the date of its enactment and terminates any such contract, as of the end of the 1947 crop year, purporting to cover a 1948 crop in a county in which insurance was discontinued pursuant to the provisions of Public Law 320.

APPENDIX

Criminal Provisions

Whoever, being an officer, agent or employee of or connected in any capacity with the Reconstruction Finance Corporation, Federal Deposit Insurance Corporation, Home Owners' Loan Corporation, Farm Credit Administration, Federal Housing Administration, Federal Farm Mortgage Corporation, Federal Crop Insurance Corporation, Farmers' Home Corporation or any land bank, intermediate credit bank, bank for cooperatives or any lending, mortgage, insurance, credit or savings and loan corporation or association authorized or acting under the laws of the United States, and whoever, being a receiver of any such institution, or agent or employee of the receiver, embezzles, abstracts, purloins or willfully misapplies any moneys, funds, credits, securities or other things of value belonging to such institution, or pledged or otherwise intrusted to its care, shall be fined not more than $5,000 or imprisoned not more than five years, or both; but if the amount or value embezzled, abstracted, purloined or misapplied does not exceed $100, he shall be fined not more than $1,000 or imprisoned not more than one year, or both. (18 U.S.C. 657)

Whoever, with intent to defraud, knowingly conceals, removes, disposes of, or converts, to his own use or to that of another, any property mortgaged or pledged to, or held by, the Farm Credit Administration, any Federal Crop Insurance Corporation, Farmers' Home Corporation, or any production credit corporation or corporation in which a production credit corporation holds stock, any regional agricultural credit corporation, or any bank for cooperatives, shall be fined not more than $5,000 or imprisoned not more than five years, or both; but if the value of such property does not exceed $100, he shall be fined not more than $1,000 or imprisoned not more than one year, or both. (18 U.S.C. 658)

Whoever, being an officer, agent or employee of or connected in any capacity with the Reconstruction Finance Corporation, Federal Deposit Insurance Corporation, Home Owners' Loan Corporation, Farm Credit Administration, Federal Housing Administration, Federal Farm Mortgage Corporation, Federal Crop Insurance Corporation, Farmers' Home Corporation, or any land bank, intermediate credit bank, bank for cooperatives or any lending, mortgage, insurance, credit or savings and loan corporation or association authorized or acting under the laws of the United States, with intent to defraud any such institution or any other company, body politic or corporate, or any individual, or to deceive any officer, auditor, examiner or agent of any such institution or of department or agency of the United States, makes any false entry in any book, report, or statement of or to any such institution, or without being duly authorized,

draws any order or bill of exchange, makes any acceptance, or issues, puts forth or assigns any note, debenture, bond or other obligation, or draft, bill of exchange, mortgage, judgment, or decree, or with intent to defraud the United States or any agency thereof, or any corporation, institution, or association referred to in this section, participates or shares in or receives directly or indirectly any money, profit, property, or benefits through any transaction, loan, commission, contract, or any other act of any such corporation, institution, or association, shall be fined not more than $10,000 or imprisoned not more than five years, or both. (18 U.S.C. 1006)

Whoever knowingly makes any false statement or report, or willfully overvalues any land, property or security, for the purpose of influencing in any way the action of the Reconstruction Finance Corporation, Farm Credit Administration, Federal Crop Insurance Corporation, Farmers' Home Corporation, any Federal intermediate credit bank, or the Federal Farm Mortgage Corporation, or any division, officer, or employee thereof, or of any corporation organized under sections 1131-1134m of Title 12, or in which a Production Credit Corporation holds stock, or of any regional agricultural credit corporation established pursuant to law, or of the National Agricultural Credit Corporation, a Federal Home Loan Bank, the Federal Home Loan Bank Board, the Home Owners' Loan Corporation, a Federal Savings and Loan Association, a Federal land bank, a joint-stock land bank, a National farm loan association, or of a Federal Reserve bank, upon any application, advance, discount, purchase, purchase agreement, repurchase agreement, commitment, or loan, or any change or extension of any of the same, by renewal, deferment of action or otherwise, or the acceptance, release, or substitution of security therefor, shall be fined not more than $5,000 or imprisoned not more than two years, or both. (18 U.S.C. 1014)

Whoever, while acting in any official capacity in the administration of any Act of Congress relating to crop insurance or to the Federal Crop Insurance Corporation speculates in any agricultural commodity or product thereof, to which such enactments apply, or in contracts relating thereto, or in the stock or membership interests of any association or corporation engaged in handling, processing, or disposing of any such commodity or product, shall be fined not more than $10,000 or imprisoned not more than two years, or both. (18 U.S.C. 1903)

COUNTY AND STATE PROVISIONS
UNDER PRODUCTION AND MARKETING ADMINISTRATION
AND FEDERAL CROP INSURANCE CORPORATION AGREEMENT

The Production and Marketing Administration Administrator and the Manager of the Federal Crop Insurance Corporation have executed an agreement in regard to the administration of the Federal Crop Insurance Program.

This agreement replaces the individual state and county agreements that have been used in previous years. It clarifies responsibilities of state and county committees and gives state committees more flexibility in the administration of the program. It provides for some additional compensation and adjustments of funds where needed.

The services to be performed by state and county committees and the compensation as set out in the 1951 fiscal year agreement are as follows:

County Committees

A. Services. Each County Committee shall perform with respect to all Crop Insurance programs in accordance with instructions issued by the Corporation the following services:

1. Actuarial Work.

Such work as may be necessary with respect to the preparation and revision of county actuarial maps and other material used to establish actuarial bases for crop insurance. Where the parties hereto agree that an abnormal amount of actuarial work is required, compensation for such work shall be provided for by supplemental agreement.

2. Sales Campaigns.

Organize and conduct with respect to each insurance program conducted within the county an intensive sales campaign which shall include:

a. The dissemination of crop insurance information through all media available to the County Committee, including newspapers, radio, mail, and the conducting of meetings;

b. The selection, training, and supervision of an adequate number of competent persons to solicit and obtain applications for crop insurance;

c. A personal solicitation of all eligible producers residing within the county;

d. Frequent reviews of sales campaign plans and the making of such revisions as are needed to obtain the greatest possible participation in insurance programs;

e. Any other sales functions necessary to conduct a successful sales campaign.

3. Applications for Insurance.

Expeditiously review and recommend to the Corporation acceptance or rejection of each crop insurance application obtained.

4. Acreage Reports.

Secure acreage reports from insureds and promptly process and transmit such reports to the Corporation.

5. Premium Collections.

Exert every effort to collect all current and past-due premiums owing the Corporation either directly or by set-off and include in the county debt register all unpaid crop insurance premiums.

6. Miscellaneous.

a. Furnish insureds and others any information or assistance with respect to crop insurance programs;

b. Receive and process notices of loss or damage and furnish adjusters and other officials and employees of the Corporation information and assistance necessary in connection with the adjustment of losses, including information on measured acreages;

c. Cooperate with all offices of the Corporation in connection with all phases of the insurance programs, and perform such other duties as may be incidental to those enumerated in this section.

B. Compensation. The Corporation will compensate each County Committee designated and selected by it for all work performed under this agreement as follows:

1. \$350.00 for each insurance program offered in the county during the 1951 fiscal year;

2. \$.50 for each insurance contract in force in the county for the 1950 crop year, plus \$.50 for each contract carried over into the 1951 crop year;

3. \$.25 for each insurance application reviewed and processed;

4. Commissions at the rates specified in the attached schedule for each application for crop insurance secured by the County Committee or a sales agent employed by and working under its direction and accepted by the Corporation. No commission shall be paid for applications executed by other than bona fide producers of an insurable crop covered by the application or for any application signed by an insured ineligible for insurance because of his cancellation of a continuous contract which was in force the previous year.

5. \$.75 for each application rejected by the Corporation because of failure to meet the minimum participation requirement. No payment shall be made for applications rejected by the Corporation for any reason other than because of failure to meet the minimum participation requirement;

6. \$.50 for each contract other than those covering both spring and winter wheat, plus an additional \$.50 for each contract in excess of 85 percent of the contracts in force for the program involved, for which an acreage report is secured and processed by the County Committee prior to a date(s) to be designated by the Corporation. In counties in which both a winter wheat acreage report and a spring wheat acreage report must be secured, compensation of \$1.00 (\$.50 for each report) shall be paid for each contract for which both acreage reports are obtained and processed before the date(s) to be designated. For any county in which the Corporation assumes the primary responsibility for obtaining acreage reports, the County Committee shall be paid \$.25 for each contract for which it processes acreage report(s) obtained by the Corporation;

7. Payment for 1950 crop year premiums collected in full as reflected by Corporation records as of April 30, 1951, shall be as follows:

Percentage of Premiums paid in Full to Total Contracts Earning Premiums	Rate Per Contract
Less than 80%	$ .50
80% and over, but less than 90%	.60
90% and over, but less than 98%	.75
98% and over	1.00

In computing compensation earned under this section, the highest rate reached shall be applied to all 1950 contracts on which the premium is paid in full, including any accrued interest by April 30, 1951. Premiums collected through deductions from indemnity payments and by means of ACP set-offs will be considered as collected by the County Committee, provided in the case of ACP payments the Corporation is notified of the set-offs by April 30, 1951.

State Committees

A. Services. Each State Committee shall perform the following services for the Corporation:

1. Actively cooperate in achievement of the program objectives of the Corporation and assist each County Committee within its jurisdiction which is designated by the Corporation to act as its agent in carrying out its duties under this Memorandum of Understanding;

2. Cooperate with, and offer recommendations to, the Corporation with respect to program provisions, administrative procedures, policies, and other matters pertaining to the Corporation's activities;

3. Transmit material regarding the program of the Corporation to County Committees when requested to take such action by the Corporation.

B. Compensation. The Corporation will compensate each State Committee acting for the Corporation in the amount of $500.00, plus $400.00 for each county within the State in which the County Committee acts as agent for the Corporation. Each State Committee may at its discretion, before distribution of County Committee funds received, elect to retain not in excess of 10% of commissions and 20% of

other compensation earned by any County Committee wherever this is deemed necessary or advisable to most effectively perform crop insurance functions in the state.

SCHEDULE OF 1951 STATE COMMISSION RATES BY COMMODITIES

State	Beans	Cotton	Corn	Flax	Multiple	Tobacco	Wheat
	$	$	$	$	$	$	$
Alabama		2.15					
Arizona		25.91					
Arkansas		2.85					
California		6.70					23.00
Colorado	2.50						8.32
Connecticut						5.68	
Florida						2.00	
Georgia		2.44				2.18	
Idaho	2.50						5.60
Illinois			3.77				3.00
Indiana			3.00				3.00
Iowa			3.25	3.00			
Kansas			3.00				4.49
Kentucky						2.00	
Louisiana		3.80					
Maryland			3.00				3.00
Massachusetts						4.63	
Michigan	2.50		3.00		3.00		3.00
Minnesota			3.24	3.00	3.11		3.11
Mississippi		3.21					
Missouri			3.24				3.00
Montana							18.98
Nebraska			5.52				4.91
New Mexico	4.55	13.01					19.37
New York	2.50						3.00
North Carolina		2.03			3.00	2.22	
North Dakota				3.00			5.36
Ohio			3.00			2.00	3.00
Oklahoma		2.20					4.21
Oregon							8.58
Pennsylvania			3.00			2.24	3.00
South Carolina		2.37				2.14	
South Dakota			4.29	3.66	4.36		5.53
Tennessee		2.44				2.00	
Texas		4.06					5.35
Utah							4.92
Virginia						2.00	
Washington							12.15
Wisconsin			3.00		3.00	2.12	
Wyoming	3.13						13.81

TABLE 7

SUMMARY OF INSURANCE OPERATIONS
NATIONAL PROGRAM
CROP YEARS 1939 THROUGH 1947*

COMMODITY AND ITEM	1939	1940	1941	1942	1943	1945	1946	1947	TOTAL
Wheat:									
Number of contracts	165,775	360,596	371,390	323,249	290,896	12,836	225,390	246,571	1,996,703
Number of indemnities	55,932	112,762	130,727	108,530	133,825	2,209	45,586	37,853	627,424
Premiums	$3,410,940	$ 9,155,000	$ 7,096,349	$ 8,445,257	$10,611,242	$ 1,513,973	$16,069,114	$22,330,779	$ 78,632,655
Indemnities	5,601,562	13,694,264	18,924,481	13,667,248	19,786,690	687,790	10,176,440	16,119,311	98,657,785
Gain or loss on sale of commodities	-1,418	-175,210	4,182,655	1,738,922	902,328	-	2,980,080	3,017,932	12,645,289
Loss ratio	1.64	1.53	1.68	1.34	1.72	.45	.53	.64	1.08
Cotton:									
Number of contracts	.....	.....	.....	138,770	131,524	89,981	106,682	101,691	568,648
Number of indemnities	.....	.....	.....	47,773	41,621	48,409	74,009	40,237	252,049
Premiums	.....	.....	.....	$ 6,301,928	$ 6,848,214	$ 5,269,987	$15,198,610	$13,096,559	$ 46,715,297
Indemnities	.....	.....	.....	11,269,626	13,444,566	20,526,502	51,498,806	14,805,720	111,545,220
Gain or loss on sale of commodities	.....	.....	.....	207,841	-125,795	87,000	-742,710	-	-573,664
Loss ratio	.....	.....	.....	1.73	2.00	3.83	3.56	1.13	2.42
Flax:									
Number of contracts	.....	.....	.....	.....	.....	26,035	8,836	28,434	63,305
Number of indemnities	.....	.....	.....	.....	.....	6,929	3,528	7,079	17,536
Premiums	.....	.....	.....	.....	.....	$ 1,415,279	$ 648,881	$ 4,099,177	$ 6,163,338
Indemnities	.....	.....	.....	.....	.....	842,253	1,183,812	2,697,221	4,723,286
Gain or loss on sale of commodities	.....	.....	.....	.....	.....	-	-	110,150	110,150
Loss ratio	.....	.....	.....	.....	.....	.60	1.82	.64	.75
Corn:									
Number of contracts	.....	.....	.....	.....	.....	10,419	7,333	6,763	24,515
Number of indemnities	.....	.....	.....	.....	.....	3,420	1,461	2,059	6,940
Premiums	.....	.....	.....	.....	.....	$ 397,642	$ 374,538	$ 420,204	$ 1,192,384
Indemnities	.....	.....	.....	.....	.....	657,188	310,001	929,437	1,896,626
Loss ratio	.....	.....	.....	.....	.....	1.65	.83	2.21	1.59
Tobacco:									
Number of contracts	.....	.....	.....	.....	.....	12,070	13,328	14,472	39,870
Number of indemnities	.....	.....	.....	.....	.....	1,833	1,477	2,561	5,871
Premiums	.....	.....	.....	.....	.....	$ 676,678	$ 800,207	$ 701,970	$ 2,178,856
Indemnities	.....	.....	.....	.....	.....	532,125	330,601	701,369	1,564,096
Loss ratio	.....	.....	.....	.....	.....	.79	.41	1.00	.72
Total:									
Number of contracts	165,775	360,596	371,390	462,019	422,420	151,341	361,569	397,931	2,693,041
Number of indemnities	55,932	112,762	130,727	156,303	175,446	62,800	126,061	89,789	909,820
Premiums	$3,410,940	$ 9,155,000	$ 7,096,349	$14,747,185	$17,459,455	$ 9,273,559	$33,091,350	$40,648,689	$134,882,530
Indemnities	5,601,562	13,694,264	18,924,481	24,936,874	33,231,256	23,245,858	63,499,660	35,253,058	218,387,013
Gain or loss on sale of commodities	-1,418	-175,210	4,182,655	1,946,763	776,533	87,000	2,237,370	3,128,432	12,182,125
Loss ratio	1.64	1.53	1.68	1.49	1.82	2.48	1.80	.81	1.48

*No program in crop year 1944.

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